



Satin Creditcare Network Limited Quarterly Earning  
Conference Call

**November 07, 2019**



**MANAGEMENT: MR. H. P. SINGH – CHAIRMAN & MANAGING  
DIRECTOR, SATIN CREDITCARE NETWORK LIMITED**



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**Moderator:** Ladies and Gentlemen, Good Day and welcome to the Satin Creditcare Network Limited quarterly Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. HP Singh – Chairman and Managing Director. Thank you and over to you, sir.

**HP Singh:** Thank you so much. Good morning everybody. We are pleased to report a good set of numbers despite challenging economic environment and flood like situations in major part of the countries. At Satin it has been a constant effort to design the right processes, streamline our operation and leverage the technology without dampening the quality of our portfolio.

As you are all aware that the company has undergone several transitions of process re-engineering and adopted new initiatives which have made us future ready and are excited to grab the arising business opportunities going forward. We have always adopted the client-centric approach by providing unique loan products under one umbrella, and we further endeavor to strengthen our presence by financing our customers on a continuous basis, in order to improve their livelihood, establish identity and enhance self-esteem

We are proud to have receive the first place amongst MFIs in Customer Service Index Evaluation conducted by MFIN fair practices code, policies and processes and we always try to have best practices and stakeholder interaction at all times.

Now let me run through the financial and operational highlights of our companies:

Our AUM has seen a growth of 16% which stands at 7,182 crores as compared to 6,191 crores a year ago. We have seen a robust growth in customer addition of 3.99 lakhs – a growth of 12.3% year-on-year. Our customer base now stands at 36.3 lakh. Our disbursements for the quarter stood at Rs. 1,819 crores as against 1,267 crores a year ago, a strong growth of 43.6% year-on-year. NII for the quarter grew by 7.2% to Rs. 217 crores while PAT for the quarter increased by 17.8% to Rs. 54 crores. ROA for the quarter stood at 3.2% whereas ROE stood at 16.4% for Quarter 2 FY20.

Despite flood-like situation in major parts of the country, our collection efficiency for the quarter stood at 99%. Since April '18, we have able to maintain a higher collection efficiency in 99.6% comprising 92% of the portfolio. We have seen an improvement of our GNPA. As on 30<sup>th</sup> September 2019 our gross NPA stood at 3.1% of AUM versus 4.1% in Quarter 2 FY19. For the quarter gone by, our company has been able to continue its strong flow on both operational as well as financial parameters.



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We continue to focus on our digital initiatives and are on track to optimize cost without compromising on customer experience as well as meeting stakeholders expectations. Through several initiatives such as real-time credit bureau check, instant account verification coupled with 100% cashless disbursements, we have been able to significantly reduce the disbursement timelines without compromising on quality.

While we have achieved 12% of our collection under cashless purview, I am happy to share that we are on track to take this to 50% by March 2020, which will help us in seamless transaction and also optimize cost along with improved productivity per employees.

Our game changing digital transformation technology, LMS which is built in-house by the company in a record seven months provides us with live tracking features and last mile connectivity with real time updates and control of the day-to-day business operations and KPIs seamlessly.

From July to September we have added around 71 branches across regions. As on September 19 we have a strong branch network of 1,299 branches widespread across 377 districts in 22 states and union territories which is up 21.9% year-on-year. 100% of our branches & centers and 70% of our customer houses are geo tagged contributing to better control and processes while optimizing our day-to-day activities.

Through our extensive corporate history in adopting digital initiatives we have developed an in-depth understanding of the borrowing requirements of client segments and have accordingly developed LoanDost – a digital lending platform with inbuilt Psychometric Tests and availability to disburse loans within 25 minutes without any human intervention. Now LoanDost also offers loans to self-employed individuals. We are confident that significant investment made in process improvisation should help us drive system efficiencies resulting in enhanced productivity, faster TAT, and reduced operating cost.

I am happy to state that Satin has successfully emerged as a leading pan India microfinance player in the industry and we are on track to further expand our footprints across geographies. During the quarter, we expanded our operations to nine more districts building our total district penetration to 377 adding 71 more branches. New geographies are cautiously selected by our business development and risk team after adequate due diligence and screening the credit history of the regions. As per MFIN micrometer June 19 data for microfinance companies, total branch network of industry stands at 12,145 branches and an AUM of 56,827 crores that just means that our company roughly contributes 10% to 11% of the total branch penetration and AUM and we are sure of realizing its benefits in the future.

We have seen a significant reduction in portfolio risk in terms of average exposure per districts, 0.27% in H1 FY20 versus 0.50% in FY16. Exposure to top 10 districts was 14% in H1 FY20



versus 27% in FY16. Exposure to top four states continues 55% in H1 FY20 from 85.9% in FY16. It is our constant effort to bring down AUM per state nearly to 20% by FY20, for example, UP where we had the highest exposure of 40.9% in FY16 has been brought down to 22.4% in H1 FY20.

We are leveraging our existing branch network and customer reach to cross sell products, we are into products financing where we have been able to disburse close to 45,500 loans which includes loans for bicycles, solar products, home appliances, consumer durables and water and sanitation.

On asset quality, we have adequate systems, process and strong internal control measures which have helped us achieve growth without comprising on portfolio quantity. The company has been very cautious in disbursing loans to its customer by implementing and adopting stringent credit norms, we have been vigilant in screening our client profile by developing a psychometric test in addition to regular credit bureau checks which helps us in refining our customer base through our pre and post disbursement audit process. In order to ensure uniform processes across branches, we have successfully implemented Centralized Share Services (CSS) which provides backend support for credit appraisal, quality and customer support along with post-disbursement monitoring. Our collection efficiency continues to be robust around 99%. Our total customer base of 36.3 lakh pays fortnightly.

Recovery against the write-off for the half year was close to about 11 crores and we hope to do more in FY20. We saw a marginal surge in PAR numbers for the quarter on account of floods in the states of Assam, Bihar, Orissa and Madhya Pradesh. This led to a dip in our collections and also impacted our disbursements.

On liquidity and capitalization – our capital base has been further strengthened with CRAR of 30.13% with Tier-1 comprising more than 23%. Ratings are IND A- (positive) for long-term credit and A1 for short-term credit by CRISIL and CARE. Liquidity has not been a constraint for us. The company has access to a diversified lender base of 69 lenders and we continue to maintain a healthy balance sheet liquidity of 1,883 crores of surplus funds as on 30<sup>th</sup> September 2019. We have undrawn sanctions worth 1,131 crores. Our reliance on NBFC funding has further reduced to 8% from 25% last year. Our structurally positive ALM also adds to our advantage.

**An update on subsidiaries:**

We are looking forward to grow our secured lending portfolio through our subsidiary thus diversifying risk while achieving a better product mix. All our subsidiaries have made good progress. We infused 30 crores of capital in Satin Housing Finance Limited which has now reached an AUM of Rs. 116 crores with nil delinquencies.



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During the quarter, our disbursement through Satin Housing Finance Ltd grew by 20% to Rs. 18 crores. Satin Finserv Limited, our MSME arm is also taking good shape post commencing our operations in March 19. AUM of SFL has reached 63 crores with over 36 crores disbursed during the quarter. Satin, the parent company, invested 30 crores equity in the company in Quarter 2 FY20.

Our business correspondence under Taraashna Financial Services has reached an AUM of 591 crores showing a 9% growth quarter-on-quarter with 3.56 lakh active loan clients. BC arrangement with IndusInd Bank continues to contribute an AUM of 612 versus 215 crores in Quarter 2 FY19. It will take us roughly four to five years to achieve a balance between microfinance and non-microfinance loans, we expect 1/3rd of our portfolio comprising non-MFI loans by then. Presently it constitutes 6% of our consolidated AUM.

Thank so much and now I open the floor for questions.

**Moderator:**

Thank you very much. Ladies and Gentlemen we will now begin the question and answer session. We take the first question is from the line of Nilesh Wagle from Suyash Advisors. Please go ahead.

**Nilesh Wagle:**

I have been following your company for a little over two years and seeing the nice progress you have made, increasing disclosures, quality of presentation all of that. However, a key question that comes to my mind after now going through matrix of several peer who now happen to be listed for some time is shown of all the talk about every company have their own quotes about what they are doing to grow the business, how they are safeguarding credit cost, what they are doing unique and different and so on and so forth. Ultimately profitability levels as measured by ROA are widely different across these companies. As investors it is little hard for us to understand why this significant difference and range between ROA levels, I would like you to sort of cut through the noise of all these 70 slides you have which is a lot of good detail, but ultimately focus on an ROE metric and how we are likely to get better or if there are structural impediments in our business which currently we need to address for these ROA matrix to change. Another personal suggestion I had when you talk of guidance on absolute profit number I would imagine that is my opinion the market is not really focused on a certain profit number; the market is really focused on how efficiently that profit is made for a certain amount of loan disbursed or a JLG or a certain scale of network. So to focus on an absolute profit number may not be as relevant as focusing on how your operating matrix and efficiency is improving?

**HP Singh:**

I think I can probably answer the second part first. So you are absolutely right in asking me what is the genesis I think you know lot of people would look at profit and all and would comment otherwise, while on the other hand lot of people would look at profit and maybe have a different feeling, but I will give you what our genesis is and then you can probably compare it with



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someone else. I am probably not in the right person to give you a comparison between us and somebody else. You can look at us and then probably decide what the difference is. We are very clear in terms of how we are growing our business. So when demonetization hit, for us, UP was the bad state which probably did affect us at that point of time. So we have taken a conscious call of distributing ourselves geographically so if you look at our geographical expansion and I will not say but that is for you to do a comparison amongst the peers, but we are now probably the only player which has a geographical presence in about 22-23 states now. So that is one conscious call which we have taken. Secondly for us the matrix of how we actually operate is taking some shape and believe me I think somewhere you will have to probably give us that kind of a benefit, that it takes time for the whole thing to move around. So for us our conscious call of taking that for the average exposure per districts. We have eight districts right now which are more than 1% and fall in the range of 1% to 2%. For us to bring every district to about less than 1% is a conscious call which we are trying to do. We had 30% of our portfolio which was monthly collection in the last two years we brought it down to 0% now. So these are expansion, and these are things which we are doing it. For us profit is not the motive, if you really look at us the way we have expanded ourselves despite the effects of demonetization, I maybe repeating it once again for everybody's benefit. We have impacted the highest after demonetization. Now demonetization overhang does not happen or finish off in three months. It takes at least about a couple of years before it finally settles down and goes on. So for us we implemented technology which probably is the most robust amongst all of us. ROA, ROE are function of what capital is there. Technically our capital adequacy is 30% it is mainly due to the increase in whatever our profits which we have. If we have a capital of about 50-60% as probably someone else will have we definitely will have a definite impact on the ROA. Similarly liquidity for us again we used to keep liquidity for 45 days today we are keeping a liquidity for 90 days. Now that has an overhang on the balance sheet. Now that will also create an overhang, but we think it is prudent to increase our exposure by another 45 days. Now these are effects which maybe somewhere you will think one have effect on our profitability, but these are structural changes which we are trying to focus upon, and we are going to do that. Similarly psychometric test – for us credit quality down to the last mile definitely yes, it is a challenge which we are facing after demonetization and probably everybody else is facing. Now for us we had to do something which was slightly different. The results initially are very robust and very encouraging whether you want to plan out in the ultimate analysis, has to be seen with data how it emanates, but does not stop us from taking that call and having that aggressive mindset with us to probably go ahead and you know impose psychometric. My own team takes a while before they want these changes to happen, but yes these are structural changes which we are trying to look at. So what we are trying to actually emphasize upon that we are based more on a structural efficiency in the long run rather than looking at short-term difference which probably could arise in the short-term space.



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**Moderator:** Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

**Agastya Dave:** I also have a very similar question, are you going overboard in terms of caution because there are two things that I can see – one is that of all your peers I understand there must have been some impact of the floods it would be nice if you can quantify that, but if I look at the growth numbers including the IndusInd part of the business it is at 12%, so are you becoming cautious because of some reason or was it completely the impact of the floods and second on your balance sheet also I can see the portion of your balance sheet which is liquid it is pretty big I think it is somewhere close to 35% if I am not mistaken. I do not have the schedules for this quarter so I cannot really be sure but obviously that will have a drag so what is the drag because of that and will you continue to be this cautious and my second question is a book keeping question sir I wanted to know the absolute number of GNPA that you have and the provisions against them – the outstanding provisions. I have other questions also I will go back in queue and then come back?

**HP Singh:** So let me give you the first thought about being cautious. See the point is, having been in this business for a very long time I think for us we feel that as the environment is changing even if though it has a drag on profitability to an extent we have increased our liquidity from 45 days to about 90 days. Now whether this is very cautious or less cautious or in line I will probably will not be able to comment on that because that is a call which we wanted to take, and we have taken that. Secondly my disbursement being impacted a little bit which is a combination of both being a slightly cautious and the impact of flood. Now if I give you one small example of being cautious. For us psychometric practically has close to about additional 4% rejection which we have, good or bad the initial thoughts which we have that we have actually made psychometric run through about 4 lakh customers for us. The collection efficiency of those 4 lakh customers comes at about 99.8 as compared to the non-psychometric clients which is at about 99.2. Now there is a 0.6 basis points initial days again yes, but we are seeing some trends which we really want to follow. See ultimately what I would like to probably also put across on the table for you as well as for everyone else who is there; these are structural changes which takes some amount of time before they finally see the light of the day. Now for that we probably will have to be patient enough to understand and for us, we have taken that call which is more important rather than anything else because what we want to see that maybe after two years of what we are trying to do now which will probably differentiate us in terms of the things which we are trying to do. I will just give you a small example which I probably reiterate I have my own internal team actually demonstrating that okay fine psychometric is probably not something which we should put because it really impacts our disbursements because 4% rejections is definitely high in terms of what we are trying to do, but yes we want to see how it actually pans out to be, how the data behaves and how is my portfolio quality behave yes definitely we are going to look at that. So that is one of the things on GNPA I think Jugal will probably give you an answer to that.



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**Jugal Kataria:** So on liquidity we have close to about 1900 crore of liquidity at the end of quarter, but on an average we are maintaining around 1400 to 1500 crore of liquidity which is roughly about 75, 80 days of business and we have slightly increase that. In terms of the gross NPA it is about 3.1% roughly 200 crore is the number.

**Agastya Dave:** And against that what is the provision?

**Jugal Kataria:** So we have made a provision of 1.7% for about 110 odd crores.

**Moderator:** Thank you. The next question is from the line of Kashyap Javeri from Emkay Global. Please go ahead.

**Kashyap Javeri:** My first question on our GNPA slides you know this collection efficiency ratio and PAR 90. I understand the collection efficiency for the loans April 18 onwards is obviously high, but in terms of our PAR 30 and PAR 90 if I can get the number for the loans which were disbursed post April'18 versus this 3.1% number and 3.7% which is on the total loan book basis?

**Jugal Kataria:** So we have not given that maybe we can take this offline, but most of the NPAs are now for the older portfolio, the new portfolio is behaving well we have given numbers for the portfolio which is beyond April 18 representing about 92% of the portfolio where we have 99.6%.

**HP Singh:** We do not have numbers differentiating between PAR 30, PAR 90 between April 18, before and post that, but the only thing which you can take a cue from we have given collection efficiency maybe we can explain and give you the numbers offline after that. If you look at the chart the difference between 8% of our portfolio which was before March 18 which was the demon impact which is 97.7% and post April 18 the collection efficiency is 99.6%. So that is the difference which actually reflects in terms of our PAR30 and PAR90 numbers also.

**Kashyap Javeri:** Second question is on our assignment book which is about 1,660 odd crore which is the residual maturity of that book?

**Jugal Kataria:** On an average about I would say 10-12 months and you can take an average.

**HP Singh:** Close to about 12 months. So let me just explain. So lot of people had apprehension that our profits are based on DA but technically we started DA last September. So if you look at a one year period technically hang of DA which was there in terms of our enhanced profits has now completely gone. Whatever after one year we probably do not have any significant impact on our PAT numbers based only on DA.





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**Kashyap Javeri:** And in any case as Jugal highlighted since the residual maturity is only less than 12 months if I am looking next 12 months profit or let us say rolling 12 months profit ideally that should not matter anyways?

**HP Singh:** Yes that is the right interpretation, yes.

**Kashyap Javeri:** Also in continuation of one of the previous participants question on this risk averseness we have a 30% CRAR and credit cost post demon has not been that alarming. In future when do we change this strategy from let us say assignments or derecognizing some part of the loan book to let us say taking more risks on-book rather than off-book when does that change happen?

**Jugal Kataria:** You know we mentioned in the past few calls that we have maintained at least about two-third of the book as on-book portfolio. We are broadly maintaining the same off-book portfolio both DA and BC both put together is close to about 34-35%, so we will not increase that you know as on today most of the public sector banks are happy giving money through that route rather than giving on-book exposure and then we are sitting on good amount of liquidity it is just only that the lender is more comfortable in today's market giving money through that route. It is not that we are not getting funding on-book, we have done ECB transaction, NCDs transactions to raise money, but the good thing is some of the PSU lenders who are not lending to the sector have started lending in the last two quarters. So hopefully funding will not be a challenge going forward also.

**HP Singh:** So overall you know 35% is what our outer benchmark is and we would like to maintain that so it does not change much

**Kashyap Javeri:** Rather let me rephrase what can make you change that proposition?

**HP Singh:** See I will tell you something, we have the largest lender base with us technically now and for PSU banks comes to you okay fine I just want to lend to you based only on DA. We have done transactions with all PSU banks Bank of Maharashtra, Bank of Baroda, State Bank of India the large ones basically so everybody is coming out with just DA. So we say okay fine that is the only way which we can get funds from that.

**Moderator:** Thank you. The next question is from the line of Piyush from JM Financial. Please go ahead.

**Piyush:** Sir I was just looking at the cost to income ratio of yours, I hardly see any improvement as such when it comes to the Q2 19 to Q2 FY20 although the AUM has grown so it is bound that cost to income ratio will also grow a little, but then when I compare with the peers, with growing up their AUM they are more concentrating on reducing the cost to income ratio, so I was just wondering that are we doing any operational efficiency kind of mechanism wherein we can enhance this ratio like can you throw some light on this?



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**HP Singh:** So Piyush if you really look at it I think we have been stable in spite of the fact that whatever structural changes we are making we are in that bracket of about 54-56%. All these structural changes that is what I mentioned maybe in my earlier statement that it takes a while before all these comes into effect in terms of on OPEX, in terms of quality, in terms of scalability and everything efficiencies also drives on through there. So for us the end endeavor by bringing in these structural changes is based on asset quality as well as in terms of how we are able to optimize our efficiency in terms of executing whatever we are doing keeping in terms of our business. Give us time it remain stable that is the best part of it that in spite of all the structural changes happening and I gave you this thing my initial rejection rate both in psychometric and CFS were up to about 30-40%. So for me having even navigated that to a large extent I think we still not gone overboard in terms of increasing our operating cost and cost to income ratio. Give us time definitely this will also be this will also see a downward trend from probably maybe a quarter onwards so it will be there.

**Moderator:** Thank you. The next question is from the line of Ridhesh Gandhi from Discovery Capital. Please go ahead.

**Ridhesh Gandhi:** Just a quick question so is this entire actually flood issue now behind us and you are initially guided towards H1 being slightly slow in terms of AUM growth and in fact we can and with the growth to pick it from H2 onwards, is that still expected to be on track?

**HP Singh:** I think Ridhesh you know till October I think we had flood impact and all these states because it was a delayed monsoon and as you all know technically the monsoon did not reiterate or did not reverse back as early as 10<sup>th</sup> of October which was the date it has in fact it was raining heavily even in mid-October in Madhya Pradesh to a large extent, but October gone I think things are much better in terms of the flood impacts and everything and we will see a significant improvement in our disbursements as well as in our portfolio quality from here on.

**Ridhesh Gandhi:** And the other question was that despite the reduction in the income tax rate our PAT guidance has remained the same, is that because of the slight slowdown what we are seeing or is it just that we have not adjusted for the tax implications?

**Jugal Kataria:** Yes, so the part of the benefit of reduction in tax is offset by the reversal of DTA, the impact will be much more in the second half year.

**Ridhesh Gandhi:** But our guidance remains with the same

**HP Singh:** The guidance remains the same we are not tinkering with the guidance at all. Reason being that first half year we could not grow probably because of large scale flooding of about 5 states which has been there. Plus we took into account and I think that come us as a boon basically for us that there have seen a drop in the tax rates. But for us, the backend operations and the reengineering



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which we are trying to do. We have added more things which probably was not there in our first when we started doing all this things across. So, I think we are not changing the guidance quarter, the guidance for PAT. Let see how it pans out in the next couple of quarters. Let us wait and see.

**Moderator:** Thank you. Next question is from the line of Nikunj Mittal, individual investor. Please go ahead.

**Nikunj Mittal:** Couple of questions. First is on the plans for the small finance bank license and the second is about the growth of the company as related to the sector because flooding and all that has impacted I would assume all the companies from the sector. But the growth as a whole reported by everyone else is far higher. So, what is specific to Satin which is keeping us subdued? So, these are my 2 questions.

**HP Singh:** So I told you it is not only flood; it is a combination of both the reengineering as well as floods. So, flood added probably a double whammy to us. We were doing reengineering so probably we knew that its going to be a muted disbursal which will happen in the first 2 quarters. But the floods added a double whammy for us. But we have been able to really taken into our impact also, that is one. And the second thing I would just like to reiterate maybe for this thing that deficiency is also being in too many states also adds up to that if flooding happens in more than one state, technically all the other peers if they are in lesser number of states and flooding does not happen and happens in only one state of theirs. The impact is lesser than for someone who there in about all the states practically. So for us the large chunk came in from about 5 states. So, that probably is maybe I do not know, is it good or bad if you are geographically diversified that is probably the only answer which I can give you. Earlier, for us we were not too present in maybe Assam and there was not flooding which could effect, this year it has been high. MP was high this year, so practically all the regions from Bhopal, Indore and everywhere were effected and we have not seen that across the past few years as such. So, I think that is probably been the combination where it has been there.

**Nikunj Mittal:** Could you just comment on the small finance bank license please?

**HP Singh:** See, we have looked at the guidelines we have had informal consultations on with a couple of consultants and we are looking at it seriously. I will not like to have it a guess right now but we are positive on it and we are looking at it in a positive fashion.

**Nikunj Mittal:** It is fine right now that we are looking at because we are just in the initial stages of exploring the idea.

**HP Singh:** Yes, we are just seeing the draft guidelines right now. So, before we take a final call I think it is still sometime away but there is no harm we are looking at the guidelines and everything on a very positive fashion.



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**Moderator:** Thank you. We take the next question from the line of Alice Mak from SBI Capital. Please go ahead.

**Alice Mak:** So, I have been following the company for quite a while and we have been very impressed with the positive performance that the company has been delivering. But unfortunately the share price is not behaving the same way as the company, highly positively. I just would like to know why this is so and what are your take on this?

**HP Singh:** How do you want me to answer that basically because I am not the one who actually runs the share prices and the largest shareholder in terms of holding 30% of it? So, we have done everything possible which we could it is ultimately left to all, everybody else who value the company the way they really want to value or whatever their perception is. I will not comment on to that but I would just like to add on that I think the way we've probably done a lot of things as a company, I think the effects probably are not valued by a lot of people. I will probably be a little blunt when I say this. But it also gives us probably an opportunity to work more on delivering much more what we can possibly even do. So, for me this is probably one of the most difficult questions to answer. It is for anybody else to probably look at it and see how they can probably view the company and the share price, probably I have no say in that.

**Alice Mak:** So, basically not much comment on that then.

**HP Singh:** Yes.

**Moderator:** Thank you. Next question is from the line of Rajeev Mehta from Yes Securities. Please go ahead.

**Rajeev Mehta:** Sir, my question is on the guidance basically because, we do not change our PAT guidance of 260 odd crores and first half we have done 95 odd crores. So, the asking rate is 165 crores which I believe looks like a tall ask because even if we continuing with the quantum of assignments that we are at right now and if the assignment income continues to be around 40-50 crores per quarter; unless we grew very significantly in the second half it looks like it will be difficult to achieve that number. So, I mean frankly I thought that there could be some revision downwards to the PAT guidance and probably this could have been the right time to do it. So, are we still expecting significant growth in terms of portfolio in the second half? So, what basically, which are the factors which still kind of make us believe that we can achieve 160 crores-165 crores of PAT in the next 2 quarters.

**HP Singh:** Rajeev, I will not give you number answers to this question. I will just give you a hypothesis. If I set my benchmark that I want to revise it down then basically I have already lost half the battle. You want me to lose half the battle I do not want to lose that. So, that is one of the thing which probably, I think it does not go on numbers or probably on this call. But I will be very honest with this. For us, I know with the type of things which we are doing internally in terms of



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reengineering in terms of how we are trying to look at that, we are hopeful and that is what we really want to bet on that. We were also hopeful on the day when we had lost about 80% of our portfolio in demon. For us, the easiest task would have been just sit back keep on crying and let things the way the work it is. So, for us we are absolutely clear that we have to reach this milestone. We are trying very hard in terms of whatever we have to do it and the backend as well as whatever restructuring. We want a double whammy this is not in our hands, floods did not impact us ever at all the way it has impacted us this year. It is there yes it is there, so we cannot help it. But we have to navigate all this back to resilience of our own company and our management team and we want to go ahead with it. So, why do you want me to give you a downward revision? Let us work doubly hard to reach what we have to reach. And like someone said in the first opening question, is profitability what is really matters or is the structural changes which we are doing matters in the long run. So, I think we believe that the structural changes matter in the long run and that is what we are endeavoring and that is what we are trying to do.

**Rajeev Mehta:**

So, in terms of the impact of the structural changes, can one assume that by Q3 or by Q4 we will be able to push growth, or we will be able grow in line with the industry or better than the industry since all those changes would have got aligned already by then? So, when do we see that what will be the inflection quarter from when the growth will start to pick up probably in line with the industry or maybe even better than the industry?

**HP Singh:**

So, I will just give you a timeline how it has panned out Rajeev to really look at it. We started this whole restructuring process in April, this year. It takes us close to about and we had envisaged in our own thing and that is the reason why the profit quarters and everything was given on to that. There could be probably aberration of may be a couple of months basically will be there. But the major part of the restructuring is happening till now. So, if I would look at on a scale of 10, I would say about 60% work has already been done, 40% work is still left just give me and I think we are just taking another quarter to probably do at it. 80-90% of our stuff will be done by December end. Only whatever is being going to left is going to be about maybe 10-15% of it left. But you can expect significant growth not in only in terms of numbers, you can look at quality, you can look at every other parameter which we are trying to bring in across over here when this happens across in probably the last quarter of this year. But 80% I would say gets finished off by December quarter and the balance probably will take another quarter or so for us to finish out. But the major task has been done.

**Rajeev Mehta:**

Any specific reason for IndusInd bank, BC book to not grow in this quarter?

**HP Singh:**

See, there are couples of challenges, I think I just can probably give you one simple challenge which has come in. So, Aadhaar card verdict probably is also throwing somewhere where I think they do not want to accept Aadhaar cards and we are trying to work on voter ID cards. So, that impacts disbursement in the short run basically. So, there are issues basically which happened



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across over there. So trying to navigate that let us see once all this gets navigated. So, that has been one of our major contributors to the effect of having a lower disbursement for IndusInd banks. Rest, I think on the overall front I think it is still remain healthy between both of us.

**Aditi Singh:** And also the geographies where we were doing the BC with IndusInd they were impacted by floods. So, that was additional thing, like Assam etc, in theses geographies where the branches have been dedicated to IndusInd for BC disbursement have been impacted.

**Moderator:** Thank you. Next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

**Agastya Dave:** Sir, the excess liquidity that you have on your balance sheet, right the 90 day or the 70 day whichever number is the average number. What is the yield drag on that additional liquidity? What is the negative yield that you incurred?

**Jugal Kataria:** It is roughly 4% to 4.5% is the number.

**Agastya Dave:** 4% to 4.5% negative?

**Jugal Kataria:** Yes.

**Agastya Dave:** And sir, on the banking license, one concern that I have is that invariably the rules are, so confusing that especially on the holding company structure. And I read in an interview of Mr. Singh and he was saying that he is very confident that holding company structure will not apply too much us for reasons which I did not fully understand. So, I understand we are in early phase of evaluating the entire thing. But especially on this holding company structure, can you elaborate what are your findings and what is your understanding as of now? And how would confident you are?

**HP Singh:** No, I did not probably say holding company structure does not apply to us. We were actually evaluating in fact; we are talking to consultants of how the structure would pan out to be. Only thing which we had since we are a listed entity on top, I think there was certain things which they had said that they will probably be easier for us to probably adapt to the structure if you become an SFB that was the only thing which I wanted to say. I would just like to add one more thing, Agastya we will not do anything which actually impacts whatever we have done until now. So, lot of our things which we are doing right now are probably according to the standards which probably will emanate technically, if we become a bank. So, we are looking at the road ahead, so whatever minimal disruption happen in terms of our conversion we are adapting ourselves even till now to look at that. So, we will only take a call when we think we are absolutely ready, so this does not actually disrupt anywhere on our growth, anywhere on our numbers, or anywhere in terms of our ROA and ROE. So, we will only go ahead when we are absolutely sure that it does not disrupt even one way our numbers.



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**Agastya Dave:** So, more than that my fear is always the holding company structure itself because of that happens we have seen significant amount of value erosion for the original shareholders. In India, it is anyways the holding company structure is not liked by the market for some reason and the discounts are pretty huge. So, that is my bigger concern. Operationally, I know you can manage.

**HP Singh:** No, for us stakeholders are the most important and we have always work towards them. So, if it means somewhere that it as of this probably does not have to go we will not go for it unless until gives us probably a correct answer to that, that the valuation goes down for our stakeholders. That is something which we would never like to do.

**Agastya Dave:** And sir my final question for the day is, you have mentioned that so many structural changes you are trying to do to the business model itself and you are in a phase of transition. So, once this transition is done, right going back to the very first question the first participant asked what is the underlying profitability that we can expect over a long time? So, I am looking at like, let us say 2 to 3 years from now.

**HP Singh:** No, Agastya I can only just give you a small hint, look at the FY21 as a whole and you will find the answer.

**Agastya Dave:** FY21 as a whole?

**HP Singh:** You will find the answer.

**Agastya Dave:** Fruit of all the efforts, right?

**HP Singh:** Yes, absolutely.

**Moderator:** Thank you. Next question is from the line of Kashyap Javeri from Emkay Global. Please go ahead.

**Kashyap Javeri:** Just one question, what is the difference between the rate that which we do securitization and assignment?

**Jugal Kataria:** So, securitization is broadly in line with on which we get on-book funding which is around 11.25 to 11.50 and assignments are roughly, I would say is 0.75% to 1% cheaper.

**Moderator:** Thank you. We take the next question is from the line of Gaurav Jani from Centrum Broking. Please go ahead.

**Gaurav Jani:** Sir, 3 questions from my end. First is, there has been a significant sort of an increase in the ticket size post Q4 FY19 from 26,000 to 30,000 SCNL book. Now what would explain this? Would it



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be because a chunk of our portfolio is matured in the 3 to 6 months bucket? Or is it to fresh customers or is it to repeat cycle customers because of the maturity bucket. So, how should I look at it?

**Aditi Singh:** So, the ticket size is a gradual increase.

**HP Singh:** Yes it has been Rs. 1,000 increase which happens practically every 6 months or so.

**Aditi Singh:** You are comparing probably after a year.

**HP Singh:** And if you really look at it first time entrance clients of ours are close to about 53%. So, that is probably not the real thing which we are trying to look at.

**Aditi Singh:** Some natural ticket size increase happens over years

**HP Singh:** And the industry average is about 30,000 we are still at about 29,000 which is more or less in line with the industry.

**Gaurav Jani:** Sir, second question from my end is you just mentioned in terms of processes the rejection rates had sort of gone up after the new process has kicked its there about 30%-40%. Have they declined?

**HP Singh:** I said 30%-40% they initially started with the 70%, so I did not give you that figure basically, but it is down to about 20% now and we are sensitizing our own operational team. So, probably, see the question is KYC is mutilated, KYC is not in the right photographs everything this would adding on to probably a disturbance in terms of getting actual good clients also on board. So, that has probably simmer down from sort of about 70%-80% now to about 20% now. And that is the real target which we are trying to achieve and securitization each and every guy on to our field.

**Aditi Singh:** So securitization is healthy for a sustainable fee perspective.

**Gaurav Jani:** No, I understand that my only point was the decline in rejection rates is purely because of our process reengineering, right? So, that is what I want to understand.

**HP Singh:** Yes, see earlier it was that all KYC were accepted. Today when we started was it was about 80% rejection now it is round to about 20%. And also we have done it gradually, so about half of our branches got converted in the last 3 months. The rest half has come in the last one month or so. So, we have done gradual things in terms of how we are accepting our KYCs. So, it takes a while before finally all this thing settles down.





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**Gaurav Jani:** So, sir how many branches now remaining for this process to be implemented?

**HP Singh:** **It's all done.**

We've put psychometric, CSS in all our branches from 1<sup>st</sup> October. 1<sup>st</sup> October was our cutoff date for adopting all across everywhere in all our branches.

**Aditi Singh:** And also this will pay in the long run because through CSS, etc. when we have done the KYC now it is hard coded at the backend. So, whenever we give further disbursements for the next 24 months we do not need to do the processes again. We have the record we have the clients already in the system being cleared. So, this actually we will capitalize when we give our other loans like MTL, Festival loan etc. to same client. So, this is actually a one-time exercise which we can capitalize only in future.

**Gaurav Jani:** Sir, also on the processes front, I mean any in the next 1.5-2 years do you envisage any other process implementations, any new processes that you would want to implement which might sort of rise the OPEX, sir lead to rise in the OPEX?

**HP Singh:** Gaurav, whatever will be there, will be very minimal basically and very small ones which probably go with such a large exercise being done. So for us, whatever large exercise which we have to do which will get completed within this year itself. The smaller one will always keep on coming basically because just to give you an example. Operationally, we had taken India as one operational center. But we now divided into 3 parts. So, India for us operationally it has been divided into 3 parts. Now, that is again a process which we have structurally changed, coming from what we were earlier. So, these things probably will end that is why I said FY21 is the year to look forward for all of us bringing in all these funds across to be implemented and executed fully.

**Gaurav Jani:** Sir, last question from my end. Structurally, I mean I am not talking of say FY20 or FY21 but basis the processes that you have implemented say for the next 3 to 5 years, do you envisage a lower growth as compared to the industry? Because we have been a bit conservative in the last couple of quarters, obviously also because of processes by even if you have to normalize that we have been bit conservative nothing wrong in that. Just that as long as we can sort of maintain our credit quality nothing wrong in having a sort of lower growth as compared to industry. So, is that the correct way to look at it? Want your comments on that please.

**HP Singh:** So, for us as the environment keeps on changing for us we have to be a step ahead of the challenging environment. That is what we are trying to do. So, for us we would like to focus more on credit quality rather than on just simply growing because that is the most easier thing which anybody could do. But having credit quality with challenging environment it is a most difficult thing to do and that is what we are trying to do. And to just give you a reason for us if



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you look at it, Gaurav what as an organization we have done it is so easy for you to finish off and not work on your write-off clients. We have done it since demon, we have done that even this year even after writing off we have been able to get about 11 crores in this year. Basically, so that is our spirit basically. For us credit quality is probably a supreme, growth comes maybe a bit later.

**Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Aditi Singh:** I take this opportunity to thank everyone for joining on the call. To sum up, we are seeing strong growth across our lending products, micro finance, housing, and MSME as well as business correspondent operations. We are hopeful of achieving a balanced and diversified portfolio mix of unsecured and secured book in coming years as we keep telling over every call. We will continue to maintain our niche and underserved and underbanked rural areas and deepen our presence by being a one stop solution provider, to cater to all the financial requirements of our customers hence we will be differentiated and diversified. Our digital initiatives should further help in cost optimization and leading to a profitable growth with improved efficiencies in the system. We are looking forward to an exciting future and we are on track to achieve our targets. I again thank everyone for being on the call. I hope we have been able to address all your queries. For any other further information, kindly get in touch with me, Aditi, I look after the investor relations or our investor relations advisors, Strategic Growth Advisors. Thank you.

**Moderator:** Thank you. On behalf of Satin Creditcare Networks Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now.