



“Satin Creditcare Network Limited Q3 & 9M FY-20 Earnings  
Conference Call”

**February 13, 2020**



**MANAGEMENT: MR. H.P. SINGH – CHAIRMAN & MANAGING  
DIRECTOR  
MR. JUGAL KATARIA – CHIEF FINANCIAL OFFICER**



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**Moderator:** Ladies and gentlemen good day and welcome to the Satin Creditcare Network Limited Q3 and 9M FY20 Earnings Conference Call. On the call we have with us Mr. H.P. Singh – Chairman and Managing Director and the management of Satin Creditcare Network Limited.

As a reminder all participant lines will be in the listen-only mode and 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 ‘\*’ 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. H. P. Singh – Chairman and Managing Director. Thank you and over to you sir.

**H.P. Singh:** Thank you. Good morning everyone and thank you for taking out time and joining us today to discuss our Q3 and 9M FY20 earnings performance. Before I provide a brief update on our quarterly performance, I would like to take this opportunity to share that our company has been certified by Great Place to Work for building and sustaining high performance culture.

Coming to our Q3 performance; I think we had a fairly good quarter considering several macroeconomic hurdles coupled with certain unrest in the micro finance industry. Despite these odds it has been our constant effort to sustain and set up right processes which will help us strengthen and streamline our operations in the coming future. Technology has become a vital part of any business to scale its operation and achieve new heights. We have been the pioneers in successfully bridging microfinance with technology which has helped us leverage our strong foundation and further improve our portfolio quality. In line with these efforts we have undergone several transitions of process reengineering and have adopted new initiatives which have armored us to face upcoming challenges and grab the ocean full of opportunities going forward.

At Satin we have always adopted a holistic approach with our customers being at the epicenter. This approach has helped us to secure first place amongst all MFIs in customer service index evaluation conducted by MFIN for fair practices code, policies and processes. Over the years we have developed and designed unique loan products for maximum inclusion of the unbanked and under banked population. We further endeavor to bridge this social economic well-being of the low income households by financing them on a sustainable basis in order to improve their livelihoods, establish identity and enhance self-esteem.

Before sharing the numbers we would like to highlight that we have reduced our net NPA by 50 basis points as compared to last quarter by write-off and increased provisions. This has been on account of write-offs of about Rs. 25 crores, an additional provisions due to Assam amounting to Rs. 26 crores. This impacted the profit for the quarter to some extent because of the increased credit cost.



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Let me run through the financial and operational highlights of our company; our AUM has seen a growth of 17.3% which stands at Rs. 7,284 crores as compared to Rs. 6,208 a year ago. As of December '19 we have a customer base of 35.6 lakh customers which is one of the highest in the industry. Our disbursement for the quarter stood at Rs. 1,904 crores as against Rs. 1,338 crores a year ago which is a strong growth of 42.2%. NII for the quarter stood at Rs. 230 crores while we reported PAT of Rs. 47 crores. ROA for the quarter stood at 2.8% whereas ROE stood at 13.6%. Despite several external and internal challenges hovering the micro finance industry we have been able to maintain our collection efficiency at 99% while having seen an improvement by 10 basis points in our GNPA. We are happy to share that NNPA has reduced by 50 basis points during the quarter for 1.4% to 0.9%. Our GNPA for the quarter stood at 3.1% as against 3.2% in Q3 FY19.

Highlights of the quarter; we had a decent quarter considering some parts of the country were disrupted due to unrest and nationwide protests, also several concerns in few districts of Assam have compelled us to adopt the cautious approach in the state. We are well equipped to deal with these challenges and thrive for our next level of growth in the coming future.

I am happy to state that our process reengineering is complete and we are confident of reaping its benefits without compromising on customer experience as well as meeting stakeholder's expectations. Our real-time credit bureaus checks and instant account verification for our customers have significantly reduced the disbursement timeline without compromising on quality. We have adopted 100% cashless disbursement across all our branches which have significantly reduced our turnaround time. With this successful implementation we are now aiming to implement cashless collections and we have achieved cashless collections of 27% in December '19. These measures would help us smoothen end-to-end transactions, optimize costs and improve productivity for employers. In December quarter we have added 55 branches across regions which takes our total branch network to 1,354. Our strong branch network is spread across 391 districts in 22 states and union territories. In continuation of our digital initiatives all our branches and centers are geo-tagged which have significantly reduced our dependency on loan officers while optimizing the day-to-day activities. Our branch network addition grew 4% sequentially and 21% on a year-to-year basis. We have a strong business and risk team in place which follows a very cautious approach in selecting the newer geographies and opening up a new branch. Our diverse presence across districts and states coupled with well penetrated branch network has helped us emerge as a stronger pan India microfinance player in the industry. Our scattered presence across districts has also helped us mitigate portfolio risks to a large extent. During the quarter we expanded our operations to 14 more districts bringing our total district penetration to 391. Today 96.9% of our districts have less than 1% of portfolio exposure which we aim to bring it down further in the coming time. We have seen a significant reduction in our portfolio risk in terms of average exposure per districts, 0.26% in nine-month FY20 versus 0.50% FY16, exposure to top 10 districts 15% and nine-month FY20 versus 27% in FY16,



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exposure to top 4 state continues 57.5% in 9MFY20 down from 85.9% in FY16. Further it has been our constant efforts to bring down AUM per state to nearly 20% to reduce concentration risk. We are aware that this might have impacted our AUM growth in the short-term. However we feel that this is the right strategy which enables us to have a right balance between growth and portfolio quality.

Our large customer base, well penetrated branch network across states and 76% rural exposure helps us to leverage our ideas of cross sell products via product financing. In nine-month we have been able to disburse more than one lakh loans which includes loans for bicycles, solar products, home appliances, consumer durables and water and sanitation.

On asset quality we have a strong internal processes coupled with stringent audit processes that has helped us monitor our portfolio quality on a regular basis. During the quarter several districts of Madhya Pradesh and Maharashtra got impacted due to heavy rains while Delhi and NCR region effected due to extreme climatic conditions. With respect to Assam there was an unrest in few districts of upper Assam by some organizational protest which impacted the operations in north eastern districts of Assam. Due to these factors our collection and loan disbursement in these geographies got impacted as our borrowers were not able to do business as usual. Despite such challenging situations our collection efficiency continues to be above 99% on a PAN India basis. With stringent screening in place our CB rejection rate has gone up from 16% in Q3 FY19 to 18% in Q3 FY20. We have also seen an improvement of 10 basis points in our GNPA which stood at 3.1% in Q3FY20 versus 3.2% in Q3FY19. We have successfully implemented Centralized Shared Services (CSS) to ensure uniform processes across branches and back end support for credit appraisal quality and customer support along with post disbursement monitoring. Recovery against the write-off for the quarter was Rs. 3.5 crores and Rs. 14.2 crores in nine-month during this financial year. Our capital base has been further strengthened with CRAR of 32.17% with Tier I comprising of more than 24%. We have a Credit Rating of long-term IND A(-) positive from India Ratings and short term ratings A1 from ICRA, CRISIL and CARE, Grading of MFI 1 from CARE ratings. Liquidity has never been a barrier for us, the company has access to diversified lender base strength of 70 active lenders. We continue to maintain a healthy balance sheet liquidity with Rs. 1,875 crores of surplus funds as on 31<sup>st</sup> December 2019. We have undrawn sanctions worth Rs. 831 crores, our reliance on NBFC funding has also further reduced to 7% from 25% last year. Our structurally positive ALM also adds to our advantage.

And update on subsidiaries; we are looking forward to grow our secured lending portfolio through our subsidiaries thus diversifying risk while achieving a better product mix to achieve next leg of growth. All our subsidiaries have been making good progress. We infused Rs. 30 crores of capital in Satin Housing Finance Limited during this financial year which has now reached an AUM of Rs. 138 crores with NIL delinquencies. Satin Housing Finance Limited has



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100% retail book comprising of 87% of affordable housing loans and 13% of LAP. During this quarter our disbursements through Satin Housing grew by 44% to Rs. 26 crores. Satin Housing has successfully started raising debts with nine lenders including refinance facility sanction from NHB in H1 FY20. We also successfully raised sub-debt of Rs. 20 crores from IFU, the sovereign fund of Danish Government. Satin Finserv Limited, our MSME arm is also taking good shape post commencing operations in March '19. AUM of SFL has reached Rs. 109 crores, SFL business aims to focus on secured retail and MSME lending, wholesale lending to smaller NBFC, MFI and others. The equity capital stands at Rs. 102.5 crores. Our business corresponding services under Taraashna Financial Services Limited has reached an AUM of Rs. 646 crores. As of 31<sup>st</sup> December, 2019 the company operates through 213 branches, has more than 3.6 lakh active loan clients. It will take us roughly 5 to 6 years to achieve a balance between microfinance and non-microfinance loans. We expect one third of our portfolio comprising non-MFI loans by then. Thank you so much and I would like to open the floor for questions.

**Moderator:** Thank you very much. Ladies and gentleman, we will now begin the question and answer session. We take the first question from the line of Sangeeta Purushottam from Cogito Advisors.

**Sangeeta Purushottam:** I wanted to understand on what has happened to the NIM. Is it true that we've seen a decline in our yield which has been higher than the decline in the cost of fund and therefore NIMs have compressed and do you see this as a trend going forward or how should we really look at it? That's question number one. 'my second question pertains to the operating level profit which has actually decreased by 9%, when do we see operating profit starts to rise again because since you have been building out on technology and other things, so operating expenses have been rising faster than the revenue. The third question really pertains to Assam, where you said that you have Rs. 250 crores of AUM and the provisions made in the third quarter of Rs. 26 crores, now that's really high. It's like your almost 10% of the book. Why is it so high and what kind of recoveries do you expect over here, could you just give a little bit of more granular understanding on this?

**H.P. Singh:** If I look at NIMs technically we have been mentioning since the last 3 quarters, we've gone through various process reengineering to a large extent like CSS, psychometric tests and all the other stuff. Thankfully that is all over by the December quarter so our NIMs will start picking up growth from now on. So that is also one of the reasons for our NIMs remaining flattish or maybe lower..

**Sangeeta Purushottam:** I didn't really understand this. The NIM actually has declined by I think almost 254 basis points in this quarter and what I wanted to understand is what is the reason behind this substantial decline, what will happen, do you expect NIMS to pick up and why is it that your yields have declined faster than your cost of fund?



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- Jugal Kataria:** If you compare the NIM for nine-month or in the second quarter which was 12.32%, we are at 12.86% in the third quarter. So sequentially there has been an increase in NIM wherein if you're comparing it to last quarter that is Q3FY19 you will see a decline that is because of the direct assignment which is now more stable which has led to increase in NIMs, so the right comparison would be Q2FY20 versus Q3FY20 where there is an improvement in the NIMS
- Sangeeta Purushottam:** But since I have looked at it from last year I just want to understand what were the reasons that you saw such a sharper fall in your yields versus your cost of funds?
- Jugal Kataria:** As I said that if you are comparing it from Q2FY20, NIMS were 12.32% while in the Q3FY20 it is 12.86%, so to that extent there is an increase in NIM from quarter-on-quarter basis. You are comparing it probably from Q3 of FY19.
- Sangeeta Purushottam:** That's right. So even if I'm comparing it from Q3 of FY19 what led to a sharper fall in yields versus the cost of fund? Was there a change in mix, there must have been some business change happening which led to a fall in yields right, which was faster than the cost of funds, what actually happened? I'm just trying to get a glimpse of what lies behind the numbers.
- Jugal Kataria:** As I said that in Q3 of FY19 the portion of direct assignment was increasing quarter-on-quarter because that was a time last year when public sector banks started giving money through direct assignment route rather than on a on-book funding. So that is why the yields were higher in the third quarter. But if you look at it now it has become stable over the period of time, so in the second quarter and the third quarter this year when the composition is broadly stable now. So we have 10% margin that we are getting and NIMS are also now comparable between Q2FY20 and Q3FY20.
- H.P. Singh:** So just to add up Sangeeta, the spike in the NIMs in Q3FY19 was has been on a one-off quarter last year basically when the direct assignment income came in. Now it's far more stable, so if you look at the quarter on quarter basis. In fact there has been an increase in the NIM from the last quarter.
- Sangeeta Purushottam:** Are you including the direct assignment income in the top line and therefore the NIMs are inclusive of the direct assignment income because I thought you are reporting that separately?
- Jugal Kataria:** So that's a separate line item in the reporting number. But when we are reporting gross yield it is the average of our total topline to the average AUM.
- Sangeeta Purushottam:** Let me just summarize this, you are saying that last year the NIMS were unnaturally high because there was a higher proportion of direct assignment income included that has normalized and that's the reason the NIMS have come down.



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- H.P.Singh:** They have become more stable basically. If you have a certain income which is due to assignment, so there would be a Spike. But now including the assignment income the NIMs are fairly stable. In fact there has been an increase in the NIMs from the last quarter.
- Sangeeta Purushottam:** So these NIMs that we were talking about 12.86% includes assignment income?
- H.P.Singh:** Yes.
- Jugal Kataria:** And even the 15.4% of Q3FY19 is calculated the same way.
- Sangeeta Purushottam:** Are these the kind of NIMS we should expect going forward in this range?
- Jugal Kataria:** So, our nine-months NIM is about 12.25% so I think that is a better reflection of how it will remain going forward.
- H.P. Singh:** Yes it will be hovering around this range.
- Sangeeta Purushottam:** The second thing is if you could throw some more color on actually what happened in Assam and why have your provisions shot up so much for Assam where you've said you provided for Rs.26 crores in Q3 out of Rs. 29 and also your total provision is about Rs. 61 crores compared to Rs. 10 crores last year. So could you please explain why this is so high and how should we look at it going forward?
- H.P. Singh:** So on Assam I can give you an update how it is panning out to be, so Rs.250 crores worth of portfolio technically, where the collection efficiency dropped to about 50% while the Citizenship Amendment Bill and various other protest and everything were going on in Assam. We are back close to about 75% to 80% of collection efficiency post all this happening across over there. Our total AUM book which is our own book is about Rs.250 crores. This is as per the ECL method which we have been able to provide Rs.26 crores. But the latest update over there is that slowly the collection efficiencies are increasing from the down of about 50% now to close to about 80% or so. And we further hope it to be better as now everything having slightly settled down from there, they will start coming back in real nature. And just to share this is also only concentrated towards the upper Assam region. We have a portfolio in Guwahati which is still at about 99% collection efficiency.
- Sangeeta Purushottam:** So when you've provided for Rs. 26 crores, are you being cautious, or you expect to lose Rs. 26 crores?
- H.P. Singh:** If you look at our ECL dynamics as such, we have probably been cautious as well as been very prudent enough in doing a higher provisioning during this time. So when there is a certain anomaly which comes in I think it takes a while before finally things start coming back to normal



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and then we probably reiterated and which we have also shown during the demon effect, so maybe the initially yes there will be a slight spike in our this thing. But we are very hopeful that things will settle down and will come back in the real space maybe in the quarter or so.

**Sangeeta Purushottam:** In your business these kinds of shocks keep happening at some point or the other, in some states something or the other may go wrong and you've been through the whole demon process and in this particular case in Assam how do you expect things to pan out that when people stop paying do you expect to go back and collect most of the money with a lag or does it get written-off? And it would really help actually if in your presentation we could have a little more granularity on how the provisions and the bad debts are moving because it's very little information on that so it's a very long presentation and there is just usually one line on the bad debt. So which is unlike many other NBFCs where you get a sense of how the slippages are moving, what has been collected from past provisions, how the provisions are made, so it's very hard to figure out what's really happening behind the scenes here.

**H.P. Singh:** Sangeeta I really don't think that probably we can look at Assam the way we can probably look at things which are happening on the other end. Yes you are right things do keep happening in states. But I think when the majority of all our states where probably demon, it came with a lag, our PAR numbers in terms of our borrowers were about 12,50,000 out of about 24 lakhs during that time but ultimately it settled down to about 2.5 lakhs at the end of it. So there will be a lag but definitely you can't say that whatever is there now which is not coming will never come in. Basically there is always a hope, there is a motivational factor, there is credit bureau checks which probably give us that if they do not repay then they will probably not get a next loan and that's a significant deterrent for them to really repay and have a good credit bureau track record. So our sense is that there will be a lag, there could be slight write-offs which we have already done. But our own sense is that things will come back into shape because this is an ongoing business for microfinance all across everywhere in India.

**Sangeeta Purushottam:** What I'm really trying to understand is you have made a huge provision, it's like Rs. 26 crores is more than 10% of your portfolio which you have provided for. Now is that the loss you are expecting or do you expect to write back some of this as you go forward. So when the situation like this happens what is the effective credit loss that you experience?

**H.P. Singh:** So you look at our history. We are the only company in the MFI space which has write-backs from write-offs. As I said it in my earnings call speech, Rs. 14.2 crores even after demon we have still been able to get money back. I eventually will not be able to tell you what the real loss would be but maybe it will be much better than what it is, what you can see probably across looking at numbers and Rs.3.5 crores which also came in during the last quarter amongst write-offs. I think your management technically has the resilience and this thing to bring back even things which have probably been written-off for so many years.





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- Jugal Kataria:** Just to add, we have explained that our net NPAs have gone down by almost 50 bps in this quarter. We have made adequate provision on Assam. and all these challenges on the ground things are taking shape, the problem is only there in upper Assam, the lower Assam is doing well. So I think will take whatever corrective actions are required going forward and will demonstrate that which will get reflected in the financials going forward.
- H.P. Singh:** Sorry to interrupt, Sangeeta, I think there would be other participants. So if anything else is there we can take it off-line from you. Absolutely no issues.
- Sangeeta Purushottam:** **Can you provide** more details on how your provisions and NPAs are moving.
- H.P. Singh:** We can give it to you off-line whatever are your requirements, we can definitely do that. We will ask someone, do get in touch with you, will give you all details.
- Moderator:** We take the next question from the line of Sudhir Beda from Right Time Consultancy.
- Sudhir Beda:** As rural economy is improving because of various other factors like increase in food prices and rain is supposed to be good and you also said just a while back that from Q4 onward we will see a good growth. So how do you think that next year would shape up in terms of disbursement and growth?
- H.P. Singh:** I can only tell you this thing and we have been saying it consistently across for the last 3 quarters that due to our process reengineering we had not seen growth in 9 months but as the process reengineering and everything is over by December '19. You can see good growth for ourselves and we definitely will have a good quarter and going forward probably have a very good disbursement across the next year. That is something which I can probably say for in certainty.
- Sudhir Beda:** Can you quantify the guidance for next year in terms of disbursement growth and profit growth?
- H.P. Singh:** We can give you guidance when we give our March quarterly numbers.. But the only thing which I can say with certainty definitely you will have a good quarter for growth and a good year next ahead for growth.
- Moderator:** We take the next question from the line of Amit Premchandani from UTI Mutual Fund.
- Amit Premchandani:** We have been doing process reengineering and spending a lot on expansion of branches etc. When do we see this expansion phase coming to an end, you mentioned that December is the end of process engineering? But if you look at the on-book AUM growth, it is really disappointing, so when do we see that investment getting paid out through balance sheet growth?



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**H.P. Singh:** As I said for us the phase of nine months which ended December 19 was reengineering and expansion. Expansion definitely for us is going to be there but it will be on a very low key because whatever major we had to do we had to finish off in these nine months of our life. This is what I told the earlier caller also that is for sure that our growth on both AUMs as well as geographically will be there. I think now the growth will start coming, in fact it will be there in this quarter. So whatever the expectation in terms of growth definitely yes it is going to be there from this quarter onwards.

**Amit Premchandani:** If you look at microfinance, the number of loan officers has increased by 18%. Even the AUM has not grown by 18% in microfinance, so where we expect some operating leverage in the system otherwise it's a very low ROA-ROE. There is no operating leverage, so when do you think this 7000 loan officers can generate the 15,000 crores of AUM for microfinance or this growth will lead to be continued to generate AUM on the micro finance side?

**H.P. Singh:** The increase has been in the last quarter, so whatever expansion and whatever reengineering we said we have been doing. The final push came in in the last quarter when our loan officers increased. It was in the middle of the last quarter when we have been able to finish off all these and that's what I said look at the full quarter this time and look at the future disbursements and the growth in the next year.

**Amit Premchandani:** But do you think in terms of number of management layers that you have in the microfinance business are more than what is required and also if you have so many employees catering to only Rs. 7,000 crores of AUM, why is the credit cost still relatively higher than some of the peers? It should lead to better underwriting, better collection, why is it not reflected in numbers?

**H.P. Singh:** You have to probably also look at the differentiation between what you are comparing with our peers and us. To be very honest and I don't want to repeat it over and again, the overhang from demon, Assam is now a recent phenomenon and technically if you really think that my credit cost probably is a fall back of only by increasing number of feet on street I think that can probably be demonstrated also with the write-backs. That is something which I have been touching for a very long time. But in terms of our portfolio quality Assam is something where number of feet on street does not decide how the credit quality will pass out because of external factors which is not in the control of anyone. So you will have to look at all these points put together rather than isolate them. With respect to Assam, we are very confident of navigating this, as we have navigated it during demon. But definitely our focus has been still on write-backs from write-offs, we still haven't relented even after 3 years of demon, we are still going ahead with it and probably with Assam also we will probably go forward and try and see if we can bring it back from write-offs across the regions.

**Amit Premchandani:** This Rs. 250 crores Assam includes Guwahati portfolio?



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- H.P. Singh:** Yes includes Guwahati portfolio also.
- Amit Premchandani:** Are you getting balance sheet funding or are you still getting funding through assignment or securitization?
- H.P. Singh:** Its combination of both. Never have we ever stated that for us getting funding for our own balance sheet has been a concern. It's not been there. But yes DA for us we feel is probably something of which we feel the pros are far more outweighing than what the cons are. But nowhere has it ever occurred that we have even a little bit of stress on raising funds for our own balance sheet, absolutely no.
- Moderator:** We take the next question from the line of Agastya Dave from CAO Capital.
- Agastya Dave:** I had a very similar question to the previous lady participant about the NPA and the provisions and how they are moving. So I would also request one slide on that in the presentation. Presentation generally is very good and detailed but a little bit more granularity on how the NPAs are moving and how the provisions are happening that would be very useful. Most of the questions have been answered. I had just one question regarding the , this direct assignment strategy that you were just discussing, would we see some tweak there going forward because now the atmosphere is much more better with respect to liquidity. And you also have a humongous amount of liquidity on your balance sheet, so in the ALM side you guys will be crossing Rs. 2,000 crores of liquidity over in the next 3 to 4 months. So what is strategy there, what are the benefits, you said that direct assignment even now is a net-net beneficial thing. So can you just quantify that because as of now it seems that you have so much excess liquidity and DAs happening and the AUM is not growing. So things are looking worse than they are actually, so if you could just throw some light on that?
- H.P. Singh:** With respect to DA we have our internal benchmark of limiting it to a certain percentage. We will not go beyond that certain percentage. That's our internal thing. Our thought processes again with respect to DA income which had a spike earlier when we started the whole journey with DA was probably higher. But now it has petered-off that my run-offs incomes and my new fresh income from DA probably has stabled down and there is probably no unnecessarily spike which is seen in my revenue projections. That's one. The other thing is I think for us this has been a product which has been devised by a lot of public sector banks in terms of how they fund the MFI space and this is where it is. But we are cognizant of the fact that we are within the realms of how much DA income should we really bring and how much DA we should do, we are very clear about it. And definitely any further spike or anything which will not be seen in our revenue growth. Again the growth for us is been flattish, the reason why it has been is already demonstrated in our earlier calls as well as what we did. But I think from this quarter onwards



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maybe this question probably will have no relevance in terms of being asked once you look at the growth coming in from there.

**Agastya Dave:**

Another question was on product financing business; so what are the trends there? Do you see higher credit cost there but also higher interest rates that you get, what's the trade-off there and how do we see that business growing? Is it riskier than the normal business or not?

**H.P. Singh:**

Just to give you a broad flavor, the cross sell business is far-far better than what our core business could be. But having said that it is not that basically what we are trying to do. We are having a product mix where we feel that this cross sell business also gives us an additional leverage in terms of building up our rapport with our existing customers. That's one. Secondly it is good for our P&L and our balance sheet to do cross sell, and definitely yes I don't have the ready-made numbers of that. But if you want we can probably have it offline. But my portfolios in this case far-far superior than what even if you consider looking at microfinance to that extent. It's not riskier

**Agastya Dave:**

One last strategy question which is the gross NPA number of 3.1% and net NPA of 0.9%, so is there a sense of not writing down the entire thing because demon there were quarters where you had the huge recoveries, now I believe the number that you have given is Rs. 14 crores. But is there a sense to just write-off that amount and have a clean slate for next year and what are the pros and cons for that ? Do you still expect some recoveries to continue, why not just write it off and then just take it forward?

**H.P. Singh:**

Let me just clarify this thing; I think from the last quarter of 1.4% net NPA we brought it down to 0.9%, so I think that is something which probably we would love to be appreciated. You just can't clean up in one day and we have taken a very cautious call of doing this in spite of the fact that they did hurt our profits. Going forward also definitely yes, our endeavor is to bring down our net NPAs down to probably what people consider is to be a fairly reasonable level or something which is probably far more better than what it is right now, definitely our endeavor is to do that. Just to give you a piece on the write-offs and the write backs; last year total for the one whole year our write backs were Rs.21 crores. We have already reached Rs. 14 crores in the last quarter. Our sense is we still will be somewhere close to that by the quarter end. We will not relent till our last penny that's what we always believe in whether we get it or we don't get it. But the thought process and the endeavor is always to bring back as write backs whatever we can from this thing. We have been relentless for the last 3 years doing that. We will be relentless doing it for the next 3 years also.

**Agastya Dave:**

You have put in the hard work like creating an infrastructure which is superior to others. I just hope that the operating leverage growth and credit cost now start playing out. Good luck for the next quarter and the year ahead.



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- H.P. Singh:** Thank you so much.
- Moderator:** We take the next question from the line of Aarsh Desai from Vallum Capital.
- Aarsh Desai:** My question was with regards to the Rs. 65 crores provisioning that we have done this quarter, Rs. 26 crores in Assam, the balance provisioning that we done is it specific to some particular state or something because it is higher than the normal run-rate of Rs. 10 crores a quarter that we usually do or this is just to bump-up of provisions coverage per se?
- Jugal Kataria:** A combination of provisioning and write-off, so that is why our net NPA has come down. That process has started all across, not for a particular state. Of course, Rs. 26 crores additional was coming from Assam but barring that portfolio quality has been stable, the collection efficiency on 96% of the portfolio that we have generated post March '18 is 99% including Assam and 99.4% excluding Assam. So that shows the kind of portfolio that we have created which is almost 96% of the portfolio.
- Aarsh Desai:** Going forward is there no specific provisions like Assam or something that you would have to incrementally create what the situation stands today?
- H.P. Singh:** I think we have done whatever we could do looking at the numbers and the whole process of getting back money and whatever is going to be lost during that in the initial phase. We have made sufficient provisions enough to take it during this quarter. We have done that.
- Jugal Kataria:** The situation in Assam is also improving and as we said that the collections on a day-to-day basis is about 75%-80%, out of that Guwahati is absolutely normal, in the lower Assam problem is not there. So we feel that we have adequately provided for whatever was required as of now and we will keep a close eye on the situation and take the necessary action.
- Aarsh Desai:** Sequentially our cost of funds have come down, what is the reason for this and should we see our cost of funds stabilize at these levels or here we can see 10-20 basis points for the reduction in cost of funds going ahead?
- Jugal Kataria:** Cost of fund, the rates are have slightly stabilized, so the benefit is getting passed on partially to us. It's not being in line with the reduction in overall MCLR cuts etc. But we are accordingly passing it on to our customer, we have 10% margin cap. So our endeavor is to keep getting the best rate and pass on the benefit to our customers.
- Aarsh Desai:** I think you are structurally working very well. I hope we see explosion of growth in the coming quarters. Thank you.
- H.P. Singh:** I have given my assurance definitely it will be there.



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- Moderator:** We take the next question from the line of Gaurav Jani from Centrum Broking.
- Gaurav Jani:** Firstly on some clarity on the Assam portfolio, what's the breakup between the upper Assam tea estate and the rest of the state? I believe we have total Rs. 444 crores exposure out there.
- H.P. Singh:** I have brief numbers on the tea garden workers, so the total tea garden workers exposure was about Rs. 14 crores portfolio which was majorly impacted also. Out of that Rs. 14 crores for us if you really look at it, we have a collection efficiency of of about 70%-80%. That's the number which I have at the back of my hand. But the upper Assam numbers and the lower Assam numbers I probably wont be able to give. I would give it to you offline. But I really don't know what the numbers would be but I can take it off-line. We can give you those numbers also.
- Gaurav Jani:** What's your PAR 180 portfolio as of now?
- H.P. Singh:** PAR 180 again this is more granular details.
- Gaurav Jani:** You mentioned in your opening remarks about some bit of stress because of floods in Madhya Pradesh and Maharashtra. Just want to understand in terms of pipeline; going forward in the coming quarters what sort of a stress do we see pan India and also relating to these states?
- H.P. Singh:** Maharashtra our portfolio is very limited, it is still in Amravati and we are literally at the fag end of our finishing off in Maharashtra. Rest of the states my own sense is I think barring Assam we have seen practically no stress in our repayments right now and even in the external environment across anywhere. We are not there in Karnataka, we have still our handle on other states across very well. We have seen no stress in our repayments. So my conjecture right now is that we don't see any kind of immediate stress which is there in any states.
- Moderator:** We take the next question from the line of Riddhesh Gandhi from Discovery Capital.
- Riddhesh Gandhi:** Just had a question, if you look at any of the key metrics of the number of centers you have, first is the AUM or effectively the number of employees; you guys are slightly on the lower side of things and I guess this is because of its diversification strategy which you have taken. Just to understand this growth which you are saying is going to kick in, is there going to be a reasonable degree of operating leverage where effectively we aren't going to have to increase our cost centers and just have increase the AUM with the same cost ?
- H.P. Singh:** Riddhesh what I can give you, if you look at my nine-months cost to income ratio as compared to the nine-months same period last year I think there has been a fall over there. So the leverage which probably is going to come in and going to kick in is going to be better than what it is now; when my portfolio grows again which has been on flattish nine-months. So if you have to really look at the fine print and the numbers, the numbers are very positive, if you look at our cost to



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income ratio and my OPEX they have come down from our previous year that to. on no growth technically, so if the growth kicks in definitely whatever advantages we have with our process reengineering we have been able to do I think that will be significant enough to look at in line of our growth. So that is the only thing which I can leave it with you. Centers and this thing will probably will be fallout of my OPEX ratios and my cost to income, definitely you will see improvement once this is imposed.

- Riddhesh Gandhi:** Is there any risk of the off-book loans in Assam, do we have any effect FLDG at all?
- H.P. Singh:** No.
- Riddhesh Gandhi:** So effectively the entire exposure which we would have, the incremental Rs. 200 crores is actually these direct assignments or securitization where we don't have any risk. So, the only Rs.250 crores which we have at risk?
- H.P. Singh:** Yes, absolutely you got it spot on. We don't have any risk on direct assignment we don't have any risk on the additional 200 crores.
- Riddhesh Gandhi:** And of these Rs. 250 crores the 10% provision we have taken, is it as high as we would expect in this situation or you think there could be potential incremental actual write-off you need to take?
- H.P. Singh:** So Riddhesh, my own sense is look at from longer holistic view. Even it could be a slight spike right now, the lag will finish off because as I told we are now looking at how to bring it back to that 99.5% collection efficiency and believe me it will be there.
- Riddhesh Gandhi:** And as we looking to Q4 where you have been indicating since the last 9 months that the growth is going to kick in. We are already halfway through the quarter, is there clear visibility that the growth is kicking in and that we will see an improvement across ROEs and ROAs and all of that and is there any incremental slippages risk that we see over the next few quarters, based on the feasibility that you have right now?
- H.P. Singh:** So on the visibility right now where I sit I can only say it with certainty on the growth, absolutely yes. On slippages till now we have fairly been okay all across India, I am not talking of Assam but apart from Assam we have been fine. So there are no technical slippages else in India so that's the only thing which I can leave you with.
- Moderator:** Next question is from the line of Rajeev Mehta from Yes Securities.
- Rajeev Mehta:** I have a few questions, firstly on the discrepancy between a disbursement growth and AUM growth. So last 3 quarters consistently we have been clocking (+40%) disbursement growth but



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sequentially AUM is not increasing much and AUM growth has been below 15% odd so it's a large diversions and which also means that that there is a high amount of portfolio running down every quarter, which does not allow the AUM to go up. So is it a function somewhere of duration of loans shortening, can you please explain or reconcile?

**H.P. Singh:** Simple two sentence answer on this. The whole process reengineering which we have been in was also done on the product and we really found that the churn was far higher than what it really should be and that we have plugged in and definitely now that gap will reduce to a very large extent.

**Rajeev Mehta:** With regards to again the employee's addition in this quarter and what I see is that a large amount of employee addition has happened on the non-loan officer side. About 1000 people odd as I can see in the SCNL employee numbers ex of loan officers, about 1000 odd people were added in this category of employees; whereas this category of employees has been actually coming down in the last 2-3 quarters and wherein I was assuming that it is related to the back office engineering and a centralized services that we have taken up. But again this quarter it's a significant number increasing in that non-business employees if I can call it. So what explains this sudden 1000 people increase in that base?

**H.P. Singh:** So again I can't give you the real exact details of how we have been able to do that but these 1000 additions are also there on the field; so for us it's not that they are our back end which is been very flattish and we are in fact trying to see how we can bring it down and we have got blueprints ready which are getting implemented now and the results which you see but these 1000 numbers which you see in increase in terms of non-loan officers are also part of our process which we have been able to do in the reengineering in the operational field space also. So this will start contributing towards whatever growth and leveraging which we are talking about definitely again from this quarter onwards.

**Rajeev Mehta:** What was the block of gross NPA that was written off in Q3 because we did about Rs. 25 crores odd provision towards write-off as you said? So this would be the residual provisioning number but what was the overall number of gross NPA which went out because of write-off?

**Jugal Kataria:** We have taken a additional hit of about Rs. 25 crores odd in this quarter over and above the Assam thing.

**Rajeev Mehta:** No, so I'm asking about the non-Assam provisioning, as highlighted in the initial remarks that Rs.25 crores odd provisioning was far write-offs and Rs. 26 crores was on the Assam portfolio. So, on the write-off, what was the block of write-off in Q3?

**Jugal Kataria:** I had said that we have written off about additional Rs.25 crores in this quarter.





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- Rajeev Mehta:** Full Rs. 25 crores is the write-off number. With regards to this interest income, a typically BC income which is through IndusInd BC which is within SCNL and Taraashna. This BC income, how is it recorded in the P&L, is it the net spread which gets into the interest income line or is the gross number in the interest income number and then there is an expense on the interest expense line and then the OPEX flowing through. How is this reported, the BC and Taraashna numbers in a consolidated...?
- Jugal Kataria:** The BC income we get only the net payout as our income which is in the top-line. We don't record the entire gross receipt because that's not to our account. The net margin is reported as top line.
- Rajeev Mehta:** So this top-line will be part of the interest income that we report in the regulatory format?
- Jugal Kataria:** It's part of the fee and commission income. And in the presentation, we have given a separate line of BC income.
- Rajeev Mehta:** With regards to West Bengal because there has been lot of noise in that state as well but as Sir said that, apart from Assam no other state is witnessing any kind of a social unrest which is impacting operations. So West Bengal also we have got a material exposure out there, so West Bengal collection efficiencies in the trends that you see on the ground are pretty much normal right now?
- H.P. Singh:** So we have already shared the details its 99.4% collection efficiency without Assam which includes West Bengal also.
- Rajeev Mehta:** I also wanted your comments on the IndusInd Bank BC because now for 2-3 quarters in a row that book has been coming off; is it a transient phase of low disbursements right now and then again with our overall disbursements picking up, even IndusInd BC branches they will also start to disburse more and that portfolio going up in the future?
- H.P. Singh:** We might but I think the overall percentage what we are looking at is that how does the DA and BC look together, so we are at a certain percentage. I think for us on an overall basis we do not want to breach those percentage marks to a large extent. So within the realms of that whole block of percentages which we are looking at I think BC will also be fitted in whatever increase will come across.
- Rajeev Mehta:** And a last question Jugal about this operating expenses; there was a 7% odd decline in absolute number. So we were at Rs,132 crores Q2, there is Rs. 122 crores in Q3 and despite adding more branches, adding more employees as I was discussing before; there was a significant fall sequentially. So any one-off that you would want to highlight here or what can be a run-rate that we can model?



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**Jugal Kataria:** Nine-months number is a better reflection of how the OPEX you should consider in your model etc. So we are taking whatever corrective actions are required and there might be some one-off in previous quarter or going forward but nine-month number is a better reflection of how the OPEX is behaving.

**Moderator:** We take the next question from the line of M B Mahesh from Kotak Securities.

**M B Mahesh:** Just a few questions again on Assam. If you can give us what is your PAR 0 or PAR 1 portfolio which is sitting in Assam as we see.

**H.P. Singh:** I can't share the numbers of PAR 1. Can you just take it off-line?

**M B Mahesh:** Second question qualitatively there has been a fair amount of difference in opinion as to what seems to happen in that specific state. If you could just give your opinion as to; is there apart from a political tension which is arising in that particular place. Is there a leverage issue as well in that particular portfolio? Second when you look at your portfolio of customers who have defaulted, is there a fair amount..?

**H.P. Singh:** On your first question over leverage definitely not from our side. I can't speak about anything else besides this but definitely yes there is nothing on terms of over leverage from our side and if you look at the granular details and if you look at NBFC composition between NBFC-MFI in fact they have been in yesterday's report by a journalist which has come in ET. NBFC-MFIs technically do not have over leveraging; the percentages are still not there for NBFC-MFIs. That's the only thing which I can leave it with you.

**M B Mahesh:** The comment was more specifically at industry level, we have been looking at the portfolio because there seem to be an after-effect of the default which has happened on the all the players in the industry. It was more from that angle.

**H.P. Singh:** I told you, look at that granularly that where has the over leveraging, the data says this all.

**M B Mahesh:** Second one, when you look at your own portfolio of the customers who have defaulted, would you see that is it customers who are new to credit who have defaulted or is it customers who have got a fair amount of overlap with some of the other lenders who have created a problem for you?

**H.P. Singh:** We have not checked that in detail but our customers are our customers. That's more important for us to really look at. There could be an over leveraging, I don't know how you have the numbers of portfolios of the other players also. So you can see how much would be the overlap, I will not be the right person to give you a comment on. But I can just leave it on the table for you, that for us, Assam is also the way we have been able to deal with a lot of crisis which have



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come in our life and we are looking towards motivating our customers and building up the track with our customers too. Whatever ways we are able to really do that centrally the workshop, CSR activities and all that stuff and we are very hopeful that, we will be able to bounce back whatever numbers are there in terms of the portfolio in Assam.

**M B Mahesh:** One final question again on this is that, is there a difference between, because one of the other players had put in this data that the repayment rates have moved, almost closer to normalcy, is there any difference between the repayment rate that one is seeing in the market either in the form of what kind of meetings one is able to do or what kind of repayment that one is able to see?

**H.P. Singh:** Again I am not the right person to comment on somebody else's collection efficiency rates. Our collection efficiency is at about 75% to 80% and this is what we have there with us, fair not for me to comment on anyone else.

**M B Mahesh:** No, the idea is to understand your portfolio, just to understand is there a difference between why you have seen this kind of repayment rates or is it just a trend; that is difference of a quarter, couple of quarters, that's the only thing? We are trying to understand is there a difference which will emerge between one player and the other in a specific market in terms of repayment rates in that particular portfolio?

**H.P. Singh:** I cannot comment on someone else. I can only give you a comment about us, I can give you the number, talking for us basically, it's not fair on my part to probably give a comment on this. We have given you our numbers, it's your judgmental call how you really look at it.

**Moderator:** We take the next question from the line of Rahul Picha from Multi Act.

**Rahul Picha:** My question is again on Assam; I just wanted to understand the main reason for the issue there; was it the MFI protest or was it the CAA agitation that happened later on?

**H.P. Singh:** It was a couple of organizations and associations which actually started the whole trigger process sometime in October. From there in jumped on to the CAA agitation and this thing across over there and now finally all that to the extent it probably has died down to a large extent and these were the two factors which was the reason for this Assam unrest.

**Rahul Picha:** So when you talk about the collection efficiency dipping in those regions, so the dip came in sharply during the protest pertaining to the MFI industry or was it later on when the CAA agitation happened?

**H.P. Singh:** So the dip was when the CAA agitation happened.



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- Rahul Picha:** When you talk about the collection efficiency so what do you exactly mean by that? Is it the percentage of the portfolio that is paying as on date or is it for the entire quarter?
- H.P. Singh:** It's on the monthly basis than the entire quarter so even extrapolate the demand and collection this is how it will be extrapolated from a month to a quarter, it's across the quarter.
- Rahul Picha:** When you say that the collection efficiency in Assam has improved from 50% to about 75%-80%, so by the end of the quarter about 75% to 80% of the portfolio has started paying, is that what you mean, right?
- H.P. Singh:** If there was a dip that has also be factored; that is why the overall total is about 80% now.
- Rahul Picha:** In terms of number of accounts or percentage of portfolio that has started paying would be much higher than 75% -80%?
- H.P. Singh:** Yes, to a certain extent.
- Moderator:** We take the next question from the line of Vivek Poddar from Essel Investment.
- Vivek Poddar:** I just would like to know the figures of PAR trends?
- H.P. Singh:** Can you be a little more expressive?
- Vivek Poddar:** PAR 0, PAR 30 and PAR90
- H.P. Singh:** PAR 90 our GNPA we have given at is about 3.1%. You can extrapolate with our portfolio and arrive at the number.
- Moderator:** Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Jugal Kataria:** Thank you everyone for sparing the time to come on the call today. I hope we have been able to address all your queries. For any further information kindly get in touch with us or Strategic Growth Advisor, our Investor Relations Advisor. Thank you everyone.
- Moderator:** Thank you. On behalf of Satin Creditcare Network Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines. Thank you.