



“Satin Creditcare Network Limited  
Q1 FY2022 Earnings Conference Call”

August 10, 2021



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*Satin Creditcare Network Limited*  
*August 10, 2021*

**Moderator:** Ladies and gentlemen, good day and welcome to the Satin Creditcare Network Limited Q1 FY2022 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 phone. 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 of Satin Creditcare Network Limited to give his opening remarks. Over to you Sir!

**H.P. Singh:** Thank you for taking out time to discuss our Q1 FY2022 financial performance. I hope you have received our quarterly results and investor presentation by now. For those who have not, you can view them on our website and stock exchange. I hope you and your families are keeping safe amidst these ongoing COVID-19 wave.

During the second half of the previous financial year early signs of economic revival became visible, with the easing of lockdown restrictions recovery of economic activities and vaccination drives in India and throughout the world; however, as the vaccination drive started and the economy on signs of recovery from the wounds of the pandemic a much bigger second wave of COVID-19 struck again in the middle of April 2021 bringing back the lockdown restrictions in almost all parts of the country.

As guided earlier Q1 FY2022 was anticipated to be a challenging quarter as rising COVID-19 infections and the resultant economic impact led to a halt in the recovery, the sector was witnessing in the last quarter of FY2021. The company has adopted a well-calibrated and cautious approach in disbursing new loans. Over the years we have grown steadily and have demonstrated our resilience even in times of adversity faced by the business and the industry. Going ahead we expect this growth momentum to continue and for the full year FY2022 anticipate an AUM growth of 8% to 10% along with working towards enhancing the portfolio quality.

Additionally, the company is capitalized with CAR of 24% and balance sheet liquidity of Rs. 1,497 Crores which makes us well positioned and agile to achieve anticipated growth over the medium to long-term.

On our collection, we faced some challenges on the ground due to regional lockdown, restrictions which led some drop in our collection efficiency for the quarter; however, as the cases have started to decline and more populations be vaccinated one big positive is that now these restrictions have been lifted in the major parts of the areas where we operate and we are seeing a gradual uptick in our collection efficiency on a sequential basis.



*Satin Creditcare Network Limited*  
*August 10, 2021*

Overall, the collection efficiency of Q1 FY2022 stood at a reasonable 82%, which was 85% excluding Assam, while collection efficiency for the month of July stood at 87%, 89% excluding Assam. Our non-paying clients stood at 5.1% as on June 2021. The improvement signified robust underwriting and collection frameworks as well as the resilience of our customer base.

As a holistic institution the company has always envisaged empowering underserved customers throughout our customized financial solutions across value chain and build progressive opportunities for the lesser privileged sections across India. One such initiative was to disburse 87,000 bicycles to women in association with Hero Cycles.

This initiative is to enhance the mobility and livelihood of these women, which in turn will provide them better access to education, healthcare and employment thus promoting gender equality. In the near term with the asset quality anticipated to get better with better repayments and collection efficiency, getting closer to normalize levels we expect the significant revival of the sector and Satin being one of the leading players in the industry is expected to bounce back strongly.

Let me run through the financial and operational highlights of our company. Our AUM as on June 30, 2021, stood at Rs.7,464 Crores. As on June 30, 2021, we have a customer base around 30 lakh which is one of the highest in the industry. Our disbursements for the quarter stood at Rs.282 Crores as compared to Rs.67 Crores in Q1 FY2021 and Rs.2,376 Crores in Q4 FY2021.

Our assigned portfolio stood at Rs.1,093 Crores. During the quarter, we have adopted a cautious approach and new disbursements because of the rising infection and the resultant economic impact due to the second wave of COVID-19 pandemic.

Standalone disbursement for the quarter stood at Rs.222 Crores as compared to Rs.54 Crores in Q1 FY2021 and Rs.2,084 Crores in Q4 FY2021. Disbursement for July was Rs.260 Crores. However, we expect the disbursement activity to pick-up as more population gets vaccinated and the economy rebounds from the pandemic.

As on June 30, 2021, Rs.100 Crores of disbursement were made through cashless mode, while cashless collections stood at 9%. We have also adopted website payments option and UPI auto debit.

Net interest income for Q1 FY2022 stood at Rs.180 Crores as against Rs.150 Crores in Q1 FY2021. For Q1 FY2022 our preprovisioning operating profit stood at Rs.57 Crores as compared to Rs.50 Crores in Q1 FY2021. We have made provisions of Rs.434 Crores on account of COVID-19 pandemic and other external factors. Our cost to income ratio stood at 62.9% while our opex to GLP ratio stood at 5.8%. These ratios are temporarily high due to lower volumes. We hope to reduce our cost to income ratio as well as opex to GLP in the coming quarters.



*Satin Creditcare Network Limited*  
*August 10, 2021*

Coming to collection efficiency, our collection efficiency trends are as follows, April was 93%, May was 75%, June was 80%, July was 87%, and August till date is 90%. We are seeing improvement in repayments and collections month-on-month. Collection efficiency for the quarter stood at 82% and excluding Assam stood at 84%. The Assam Development will also bring a lot of relief for the sector and for Satin.

95% of our MFI customers have paid at least one installment in June 2021. We are also witnessing consistent improvement in customers that have made full payment. We are a well-diversified customer base, well penetrated branch network across states and 75% rural exposure. On book GNPA stands at 9.7%. On account of COVID-19 outbreak we have made adequate provisioning of 8.4%, bringing our NNPA to 1.2% as compared to 3.3% in Q4 FY2021.

As on June 30, 2021, our total branch network count stood at 1,264 branches, which is one of the highest in the industry. Our branch network is spread across 391 districts. We have adopted a very cautious approach in selecting the newer geographies and opening and closing of branches and expanding into new geographies.

We have total state and UTs count of 23, which makes us a well-diversified pan India microfinance player. As of June 30, 2021, 97.7% of our districts have less than 1% of portfolio exposure which we aim to bring it down further. No district has more than 2% AUM.

We have seen a significant reduction in our portfolio risk, in terms of average exposure for district, 0.26% in Q1 FY2022 versus 0.45% in FY2017. Exposure to top 10 districts as a percentage of AUM is 13% in Q1 FY2022 versus 21% in FY2017. Exposure to top four states contributes 52.6% in Q1 FY2022 from 77.3% in FY2017. Our well thought diversification strategy had helped us sail through challenging situation and leverage idea of cross sell products.

We have been able to disburse close to Rs.67 Crores during FY2021, Rs.12 Crores during Q1 FY2022 under the product financing category, which includes loans for bicycles, solar products, home appliances, consumer durable, the water and sanitation.

On liquidity and capitalization, our capital adequacy as on June 30, 2021, stood at 24% which is, well above the regulatory requirement. Till date, the company did fundraise of Rs.396 Crores. The company continues to maintain healthy balance sheet liquidity with Rs. 1,497 Crores of surplus as on June 30, 2021, and undrawn sanctions worth Rs.135 Crores as on date.

To bolster the company's capital position, we successfully raised Rs.120 Crores via rights issuance in August 2020 with an overwhelming response. The issue was oversubscribed at 123%. Out of this Rs.90 Crores have already been received by the company, Rs.45 per share out of Rs.60.



*Satin Creditcare Network Limited  
August 10, 2021*

Also, final call of Rs.30 Crores in this regard has been made whereby call payment period has begun on August 6, 2021, and will end on August 20, 2021. The update on subsidiary business, business correspondent services under Taraashna Financial Services has reached an AUM of Rs.671 Crores as of June 30, 2021. The company operates through 213 branches, has more than 3.7 lakhs active loan clients.

Satin Finserv our MSME arm has reached an AUM of Rs.125 Crores. Satin Housing Finance Limited has now reached an AUM of Rs.224 Crores including the DA of Rs.20 Crores and having presence across four states with 2,401 customers.

Satin Housing has 100% retail book comprising of 79% affordable housing loan and 21% of LAP. The company has been 10 active lenders including NHB refinance. CAR was 95.8% and gearing of 1.3x. Total equity stands at Rs.93 Crores.

Three consecutive profitable quarters, 0 NPAs since inception and more than three years of operations, stable team, a good system in process, strong credit and diversified parameters. The board of directors of two wholly owned subsidiaries of the company, the Taraashna Financial Services Limited and Satin Finserv Limited had their respective meetings have considered and approved a draft scheme of arrangement for the amalgamation of the Taraashna Financial Services Limited a transferor company, the Satin Finserv Limited the transferee company and their respective shareholders and creditor scheme, under Section 232 of the Companies Act 2013, and other applicable provisions of the act and rules made there under.

The strategic amalgamation will have multiple synergies such as combined entity to efficiently use the capital invested in the two entities are leverage the same. Currently, the revenue sharing arrangement with TFSL and SFL is taxable in the combined entity tax benefits will accrue to the business. Taraashna has significantly wider distribution reach than SFL. The combined entity can leverage on the distribution There will be cost rationalization post-merger. Post-merger SFL can introduce new products, post-merger demerged entity will focus on both on book lending and BC business.

With this I would like to open the floor for questions. Thank you.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rishikesh Oza from Robo Capital. Please go ahead.

**Rishikesh Oza:** Sir I have two questions from my side. First one is that what would be the credit cost for the full year and second one is when can we expect the AUM to grow back to 20% to 25% kind of levels?



*Satin Creditcare Network Limited*  
*August 10, 2021*

**H.P. Singh:** What we are envisaging for the whole year the credit cost to be around 4% odd. This is what we are looking at the ground situation and that is what is coming up to be in terms of our numbers. In terms of our growth of 20% in double digits technically would be from FY2023 onwards because what we feel is post the pandemic I think whatever has happened is all over now. So if you are looking in the past four to five years' track recording I think demonetization, Assam problem and then pandemic 1 and pandemic 2. Technically, we feel that now the ground and we are all ready for the growth which is going to come in. FY2023 is going to be a full-blown growth year. We are still looking at about close to about 7%-8% growth this year also, as the disbursements have started picking up so we feel that the numbers of about 22% to 25% will probably be achievable in FY2023.

**Rishikesh Oza:** Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Dhwanil Savla an Individual Investor. Please go ahead.

**Dhwanil Savla:** My first question was with regards to the kind of distribution of collection we have in the business, is there some kind of pattern, we can see that there are certain states where there is low collection efficiency and which we have been more COVID at a time the others were it is being better so I can see that UP has had a relatively better compared to that of MP's collection efficiency? My second question is with regards to our future outlook. Are we looking at increasing our AUM more than double digit, currently double-digit like I think currently double-digit kind of a growth in AUM for this current year?

**H.P. Singh:** I think let me answer the first question to you first. If you look at the whole topography, I think the top four states technically which is UP, Bihar, Punjab, and Madhya Pradesh, UP our collection efficiency for July was 96%, the collection efficiency for what you said Bihar was also at 96%, and Punjab was at 92%. The only little bit dampener was in July was Madhya Pradesh which was at about 84% and that has had a reason because Madhya Pradesh the lockdown started first and ended up the last amongst all these states. So if you look at the configuration of our collection efficiency, probably in the larger states, which all these forces constitute close to about 53% AUM, it is on an average of about 94%, all four states put together. The second dampener wherever slightly was Assam and that is the reason why we gave you some matrix on the Assam figures also, if Assam starts coming back, which we think it will be because of whatever is announced by the state government, in terms of the budget provisions, which are going to come in, I think, this collection efficiency were also rise further. The second question of your is, we are anticipating single digit growth and that is why I said it will be close to about 7% to 8% for this year, but having gone through this whole trials and tribulations and whatever the pandemic has probably thrown up, I think we are probably now ready to look at FY2023 on a double-digit growth and we will prepare our budgets once we close FY2022 but definitely yes is going to be in double digit and definitely for FY2023 but this year we looking at about 7% to 8%.



*Satin Creditcare Network Limited*  
*August 10, 2021*

**Dhwanil Savla:** Thank you very much and all the very best for coming quarter.

**Moderator:** Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:** Two questions; firstly, in Assam can you say some data how is the collection efficiency trend is panning out after the announcement of that regulation plan by the state government and by when we expect that collection money to be received from the government and leading to improvement in asset quality in Assam portfolio? Second is what was rationale of merging entities which I think we have created these entities some of the entities for witness purpose, so do we think that the nature of the business that we were doing that the entity we get impacted of the merger and what was the rationale of the merger?

**H.P. Singh:** Let me give you perspective of Assam. In Assam the announcement was not there the collection efficiency had dipped down to about 30%. Post the announcement which is being announced probably been about 1.5 to 2 months since all this activity has taken place, so from 30% collection efficiency before the announcement, post the announcement the collection efficiency is inching to now it has reached close to about 52% odd and this time I am talking off practically the last weeks as such so it is inching up slowly. In terms of when this is going to be normalized, the drafts are getting ready. I think preparations are there. What time will take? It will take we probably do not have fair idea about it but what we can say is on the ground and whatever we are looking at in terms of the engagement, which is happening with the state government, I think it is going to be happening sooner than later. So that is on the Assam front. In terms of the reason why you wanted to merge both these entities, see one thing which we really want to now state out is that I think there has been very difficult for I think a lot of people to really understand the monetization aspect of our subsidiaries and I think that is probably one of the reasons. It is not because there was any challenge in terms of this. The AUM for Taraashna was Rs.643 Crores at some point of time and also this was before the pandemic and also has the BC as a model we feel that it has done adequate justice to what and we had brought in about four to five years back when we started this whole model. We feel that the leverage of capital by both merged entities and also platform of being NBFC when both entities merge will bode very well for the merger entity technically rather splitting them across the board. So capital leverage, leverage in terms of verticals, leverage in terms of products, leverage in terms of being entity which will become NBFC rather than splitting into two entities which was non-NBFC and an NBFC and I think all these factors will bode very well for the merged entities to do business together.

The merged entities will also have BC business as well as its own book business of MSME retail lending so the synergies which we will probably bringing in and the revenue as well as baseline profitability which will probably emerge of both the merged entities is going to be far better than what it was when we are looking at both these entities separately.



*Satin Creditcare Network Limited*  
*August 10, 2021*

- Nidhesh Jain:** Sure Sir and so post-merger we will not have any problem in having qualifying asset criteria of 85% needs to be so this MSME retail business will also be part of the MFI book right?
- H.P. Singh:** No. This is separate. This is separate subsidiary which does not have anything to do with qualifying asset of what the microfinance, the parent companies does. So no qualifying asset challenges over there.
- Nidhesh Jain:** Lastly what is the interest rate that we are charging on microfinance loans just from a harmonization of guidelines perspective if the spread cap is removed, do we see potential improvement in our spreads?
- H.P. Singh:** See I think we are looking at from very positive angle. I cannot really comment on what the interest rates would be, but definitely yes that whole negativity about our margin cap of about 10%, which was embroiled earlier into the microfinance book will be probably be taken away so once that has taken away, I think the market dynamics works and we feel that if the market dynamics work, I think the interest rate whatever we are subject to right now because of the margin cap, it will have may be some enhancement somewhere or other which will take care of our credit cost in the near future because that is what we are looking it from positive side, right now which is difficult because you have margin cap which is enforced so we are looking at from an angle where we feel that there is going to positivity in terms of our bottom line as well as our revenue coming in.
- Nidhesh Jain:** Thank you. That is, it from my side.
- Moderator:** Thank you. The next question is from the line of Aditi Sawant from ADM Advisor. Please go ahead.
- Aditi Sawant:** Thank you so much for the opportunity. Sir I have one question. Are we planning any further capital raise going ahead I mean knowing the fact that we have raised Rs.120 Crores via right issue so if yes what kind of capital raise will that be?
- H.P. Singh:** Aditi, to be very honest, we are just finishing up our last call of our rights issue. So if we really look in the near term, which is a question of about a couple of months from now I think we have sufficient capital to really look at, if we are looking at the budgeted base of increasing our growth to about 8% this year, so that way we are fully capitalized to take care of the growth for this year. I really have no handle right now to give you very clear answer as to why if you are looking at capital raise in the near future, it would be possibly be yes, but nothing which is fructified and there in the cards, we want to first bring stability into our collections as well as start disbursements the way we used to bring it before the pandemic. Once that comes in I think we will take a call at that point of time, but definitely yes capital adequately enough for us to look at an 8% growth this year.





*Satin Creditcare Network Limited*  
*August 10, 2021*

- Aditi Sawant:** That is it from end. Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Shah from Ace Securities. Please go ahead.
- Amit Shah:** Good morning Sir. Sir I have couple of questions. We have disbursements close to Rs.282 Crores in this quarter, so how are the disbursement activities in the current quarter?
- H.P. Singh:** I just gave you in my remarks it was Rs.282 Crores for the whole quarter and in July we did a disbursement of close to about Rs.260-odd Crores so the way it is picking on the whole quarter was probably done in one month and the disbursements have started picking up and I think I said it in CNBC today morning also we looking at probably good quarter coming in from September onwards, once, all these restrictions coming back into the efficiency, livelihoods coming back into full scale, disbursal I think pre-COVID level sometime in September onwards.
- Amit Shah:** Okay so when can we expect these to reach to pre-COVID levels?
- H.P. Singh:** This will reach to normal levels from September.
- Amit Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Devendra Pandey from DP Financial Advisors. Please go ahead.
- Devendra Pandey:** Thank you for the opportunity. Good morning Sir. Sir my first question is on restructuring so we have restructured around 43 Crores of assets in 2.0 so how much further we are expecting to restructure the portfolio in 2.0?
- H.P. Singh:** See we have done 18000 which was close to about Rs.40 Crores in the first one. We are still looking at technically we additionally deployed a lot of human resources on the field to reach out to our customers and get our installments back but normally what happens is once you have a backlog of about four to eight installments, it becomes kind of challenging for customers to really repay the whole installments in one go. The tail gets slightly bigger, but we are aware of the situation and let us see how much we would like to restructure again in September but trying to we are giving it short that as the collection efficiency improves, I think we will see how the numbers will probably come around sometime in September or so.
- Devendra Pandey:** Few states are under stricter lockdown compared to other states so how is the collection efficiency in those States.



*Satin Creditcare Network Limited*  
*August 10, 2021*

**H.P. Singh:** The collection efficiency all across is better. Just to give you may be added cover onto that if you look at and this is relative to the earlier question that you asked in terms of the further restructuring the benchmark figure which we stated earlier is non-paying client just 5.1% in June 2021 in which is a very heartening, technically 5% of the people where there might be an issue of maybe an ability not to be on maybe I probably should not be thinking, but may be of an intent not to pay, but 5.1% of total AUM is pretty less as compared to what we gone through in this phase, so around own sense is that I think technically this is there, there have been collection efficiencies has been picked up to a large extent and we definitely will try and look that it comes back to as I said to back to the pre-COVID levels in September.

**Devendra Pandey:** On paying customers have increased from 1% in March to 5% in June so how do we see that? Is it going to increase is going to stabilize? Is it going to reduce going forward what is your view on that?

**H.P. Singh:** It is going to reduce definitely; it will not increase.

**Devendra Pandey:** Sir there is some expectation of third wave probably and we all hope that this does not come, but in the worst case if it comes, how positioned are we? What are we going to do different this time if at all it comes?

**H.P. Singh:** Our own indications on the ground are I think the whole brunt came in the second wave. We have feeling and a very strong feeling because since we are closer to the ground, we do not adequately work on the data figures what the Government of India has prescribed but definitely on the ground, there is no probable indication of a third wave and do not hold me against it probably to be very honest, we are feeling that is not going to be there, and even it comes, it is going to be very, it is going to be very mild, which does not affect the way it has probably affected in the second wave and the second wave we are fully provided for technically third wave even if it comes even if it is mild one, we probably do not have much to really lose about in terms of the way we actually structured and put in additional manpower and looking at the complete way we are handling on all DPD buckets, we feel I think this probably is not going to affect us in the coming few quarters.

**Devendra Pandey:** Thanks Sir. I will join the question queue if I need further questions.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now hand the conference over to the management for closing comments.

**Aditi Singh:** Good morning again. I take this opportunity to thank everyone for joining on this call and I hope we have been able to address all your queries. For any further information kindly get in touch with me, my name is Aditi Singh. I handle the investor relations for Satin or you can also get in



*Satin Creditcare Network Limited*  
*August 10, 2021*

touch with Strategic Growth Advisors, SGA who are our Investor Relations Advisors. Thank you. Stay healthy. Stay safe. Bye-bye.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Satin Creditcare Network Limited that concludes this conference. We thank you all for joining us. You may now disconnect your lines.