



“Satin Creditcare Network Limited
Q2 and H1 FY '23 Earnings Conference Call”

October 28, 2022



Management: Mr. HP Singh – Chairman cum Managing Director
Mr. Jugal Kataria – Group Controller
Ms. Aditi Singh – Head Strategy

Moderator: Ladies and gentlemen, Good day and welcome to Satin Creditcare Network Limited Q2 and H1 FY '23 Earnings Conference Call. As a reminder, all participants' line 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 * and then zero on a touchtone telephone. Please note that this conference is being recorded. I now



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hand the conference over to Mr. HP Singh, Chairman cum Managing Director of Satin Creditcare Network Limited. Thank you, and over to you, sir.

HP Singh:

Thank you so much. Good evening, everyone. Thank you all for taking the time to join us and discuss our financial results for Q2 and H1 FY '23. I hope you and your family had a great time during the Diwali festivities. I'm hoping that you could get a chance to go through our quarterly results and investor presentation. Those who have not seen them yet can access the same via our website and stock exchange.

During the first half of FY '23, we are delighted to share with you all that we have addressed all the asset quality concerns, which emanated due to COVID-19 pandemic and the high inflationary environment. This was possible because of the resilience of the people we serve as well as the dedication and innovation of our team, supported by a bounce back in economic activity.

The restructured book has reduced from INR 1,151 crores as on September 21 to INR 318 crores as on September 22. In percentage terms, reduced from 21.4% to 6.4% of on-book portfolio as on September 22. The reduction in restructured book is a result of INR 495 crores of collections and INR 338 crores of write-off done from this book. As on September 22, 62% of the book amounting to INR 197 crores out of the INR 318 crores is zero DPD, 22% is in 1 to 90 bucket, which is INR 70 crores, and the balance, 16%, is PAR 90 i.e. INR 51 crores. The company has created provisions amounting to INR 76 crores on this portfolio. We do not expect any further stress in this portfolio.

The on-book GNPA of the company stood at INR 198 crores, that is 3.96% of on-book portfolio, down from 8.71% as on September '21. Assam constitutes 70% of on-book GNPA, and excluding Assam GNPA as on September 22, the GNPA stood at 1.2%. The successful completion of disbursement to category one and category two borrowers under AMFIRS. We believe that the relief to category three borrowers will come in as per MOU signed. In fact, the government has released relief under Category two yesterday.

To give you some more sense on the asset quality of new disbursement PAR-90 addition of portfolio originated from loans disbursed from July '21 onwards is just a mere 0.2%, representing 84% of on-book MFI-AUM as on September '22. The company has maintained sufficient on-book provisions amounting to INR 148 crores as on September '22, which is 3% of on-book AUM.

The company has written off loans amounting to INR 209 crores during Q2 FY '23, totaling to INR 483 crores during H1 FY '23. The write-offs done during Q2 FY '23 were primarily from the provision, hence no hit to the P&L. Further during H1 FY '23, we have collected INR 16 crores from written-off loans.



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On the operations front, we are experiencing an uptick in our disbursement. For the period under review, our disbursement was at INR 1,709 crores on a consolidated basis, up by 30% from INR 1,315 crores in Q2 FY '22. With disbursement back on track, we expect growth to come in the coming quarters.

The company has started acquiring new clients and as a result, 37% of standalone disbursement in Q2 FY '23 was to the first cycle clients. Gradual pickup in the disbursement led to 3% growth in consolidated AUM, which now stands at INR 7,575 crores. The standalone AUM stood at INR 6,417 crores, it grew by 2% on a year-on-year basis. This growth is despite a write-off INR 483 crores done in H1 FY '23.

Pre write-off growth stood at 9% on a year-on-year basis for stand-alone AUM. As of 30th September 2022, the company has a CRAR of 24.1%, up from 22.6% as of 30 June 2022. During the quarter under review, the promoters infused INR 25 crores against conversion of warrants. Till date, the company has received INR 100 crores out of INR 225 crores of preferential allotment, via issue of equity shares and fully convertible warrants.

The company continues to maintain a healthy balance sheet liquidity INR 700 crores of surplus funds and has undrawn sanctions worth INR 445 crores. Out of the undrawn sanction, the company received INR 140 crores on 3rd October 2022.

We have constantly evolved over the years by putting a significant emphasis on customer-centric technology. The driving force behind this is to bring technological solutions that enable seamless experiences as well as to work at the grassroots level to empower our clients. With this intent, the organization have moved towards a more robust, scalable, secure and completely paperless technological journey with the advent of AWS and e-KYC into the system.

The microfinance industry stands for financial inclusion while also contributing to impact on sustainability, which is the basis of all on growth and the economic development of any society. Our work is a reflection of our commitment to this first principle thinking. We put all our energies towards creating social impact by way of serving the unreached population and contributing to social development goals or SDGs 1, 5, 8 and 10 as the core of our business. We over the years came across as one of the largest NBFC MFIs in terms of numbers of customers and our presence across India.

As a progressive institution, we have always employed innovative approaches to secure the interest of all our key stakeholders. It makes us happy to share that our CSR initiative contributed to women empowerment while promoting education and equal opportunities. We also tried to support the community during this test times. We are committed to ESG as a guiding principle.

We believe our conviction, passionate workforce, experience, board and healthy asset quality will help us achieve sustained growth and ensure the overall development of all our stakeholders.



Going forward, the solid ground in business, we anticipate strong growth momentum in terms of disbursement collection and steady area of progress quarter-on-quarter.

Now let me run you through the financial and operational highlights of our company.

Starting with consolidated operational highlights,

- Our AUM as on 30th September 2022 stood at Rs. 7,575 crore
- We have a customer base of 26.8 lacs as of 30th September 2022
- Our disbursement for the quarter stood at Rs. 1,709 crore as compared to Rs. 1,315 crore in Q2FY22. Our Assigned Portfolio stood at Rs. 1,413 crore
- As of 30th September 2022, 100% of our disbursement is made through cashless mode while cashless collection stood at 5%. We have also adopted website payment options and UPI auto-debit.

Standalone operational highlights,

- Our standalone disbursement for the quarter stood at Rs. 1,564 crore as compared to Rs. 1,103 crore. With gradual pick in the disbursement, we expect growth in the coming quarters
- Our Average Ticket Size of MFI Lending for the quarter stood at Rs. 43,000
- Talking about our collection efficiency. Our collection efficiency trends are as follows:
 - Q1FY23 – 97%
 - Q2FY23 – 100%
 - The collection efficiency of Q1FY23 and Q2FY23 is excluding restructured portfolio.
 - The Collection efficiency on Restructured portfolio for H1FY23 stood at 77.6%.
- We have a well-diversified customer base, a well-penetrated branch network across states, and 76% rural exposure.
- On-book GNPA reduced from 8.71% as on Q2FY22 to 3.96% as on Q2FY23 (Rs. 468 crore to Rs. 198 crore); out of this, Rs. 137 crore pertains to Assam
- Our restructured book stands at Rs. 318 crore which is approx. 6.4% of the on-book AUM

GEOGRAPHIC EXPANSION

- As of 30th September 2022, our total branch network count stood at 1,237 branches which is spread across 397 districts.
- We have a total State and UTs count of 23, which makes us a well-diversified PAN India Micro-Finance player.
- As of 30th September 2022, 96.5% of our districts have less than 1% of portfolio exposure
- We have seen a significant reduction in our portfolio risk in terms of exposure to the Top 4 states, which contributes 54% in Q2FY23 vs 77.3% in FY17.



- Our well-thought-out diversification strategy has enabled us to sail through difficult situations and capitalize on our idea of enriching our clients' lives through financing of various products. We have disbursed around Rs. 23 crore during H1FY23 under the product finance category, which includes loans for bicycles, solar products, home appliances, consumer durables, and water and sanitation.

UPDATE ON SUBSIDIARIES

- Business Correspondent services under Taraashna Financial Services Limited has an AUM of Rs. 612 crore. As of 30th September 2022, the Company operates through 157 branches and has more than 3.3 lakh active loan clients.
- Satin Finserv Ltd, our MSME arm has an AUM of Rs. 184 crore with three consecutive profitable years. CRAR of 58.8% and gearing of 0.8x. Total networth stands at Rs. 111 crore
- Satin Housing Finance Ltd has now reached an AUM of Rs. 362 crore including DA of Rs. 24 crore, having a presence across 4 states with 4,291 customers.
 - SHFL has a 100% retail book comprising: 64% affordable housing loans and 36% of LAP
 - The Company has 17 active lenders including NHB refinance
 - CRAR of 59.5% and gearing of 2.0x. Total networth stands at Rs. 122 crore
 - The quality of portfolio remains intact with GNPA of 0.4% as on Sep'22
- To update you on amalgamation of the two wholly-owned subsidiaries, Taraashna Financial Services Limited and Satin Finserv Limited, the order against the first motion application was pronounced on hearing dated May 17, 2022 by Hon'ble NCLT. Further, both the companies have filed joint second motion application with Hon'ble NCLT on May 25, 2022. The said joint second motion application was admitted by Hon'ble NCLT in its hearing dated July 08, 2022 and issued necessary directions of serving notices and newspapers advertisements. The Company has served the notices to government authorities and completed publication in requisite newspaper as per order. The next hearing is on November 25, 2022.

Lastly, with the worst behind us, we are poised to embark on the path of growth and profitability.

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

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Anyone who has a question may enter star and one. Ladies and gentlemen, will wait for a moment while the question queue assembles. Any participants who wishes to ask a question may press star and one.

The first question is from the line of Himanshu Taluja from Aditya Birla Sun Life Asset Management. Please go ahead.



Himanshu Taluja: So just a couple of questions at my end and congrats for the quarter. Firstly, out of the total restructured pool of INR 318 crores, which you have, where you have mentioned in the presentation that around INR 197 crores is out of the DPD is in the zero DPD category. What is your expectations of the remaining pool of around INR 120 crores, how much you expect this to slip or convert into an NPA?

HP Singh: See, Himanshu this is seen technically about -- if you look at it about six months of repayments, which is about 12 installments, which has come in, that is the reason why the zero-DPD technically will not slip. That is what our understanding is that INR 197 crores will remain over there. PAR 1 to 90 is close to about INR 69 crores -- our own sense is as per the ECL formula, which we do technically about 30% to 40% just slips from there, basically. So if we even look at that happening across over there, which we feel is also probably a high number. We have, what, let's say, about 30-odd percent, which is about INR 18 crores to INR 20 crores, which you move from there. On the PAR-90 plus, we again have where about 45% to 50% is recovered in terms of our collection efficiency. That's what the numbers have indicated for the last four to five years.

So our sense is that we still have this maybe about INR 20 crores to INR 25-odd crores, which will probably be there in the PAR-90 book across over there. And we have provisions worth INR 76 crores for both these categories. So our sense is we are, in fact, overprovided in terms of the restructured book, which stands right now.

Himanshu Taluja: Now sir, given most of the restructured book are now I think it comes to an end and most of the asset quality pain over with our collection efficiencies also now back to the pre pandemic -- so what sort of credit cost that you expect basically now incrementally on a steady-state basis for the business now? And how do you expect this FY the remaining second half to pan out?

HP Singh: See, whatever pain we had, we've taken to a large extent. So what we don't expect any further cost, credit cost to probably come in, in this year as such. Our own sense is, if you look at the dynamics of the new portfolio which we are making from July '21 till date, our PAR-90 is just 0.2%. So even if I extrapolate that into maybe double, triple or whatever you call it, the credit cost in the further years, my sense is close to about 1%, 1.25%. That is where it is you know and that's what my guess is looking at the portfolio quality, which is happening now post the pandemic the way we have disbursed. So our sense is just to be on a very conservative side, it has to be around 1.25% to about 1.50%, which again, if you really ask me personally on a one-to-one basis, I will not adhere to that because our whole thought process is to bring these NPA numbers down to the levels where which is there, and in fact, if you look at the numbers which are there at 0.2%, probably states that, which is there of the new portfolio, which is being now made.

Himanshu Taluja: And what's your loan growth, how you are seeing the loan growth now? Given the second half to be better for the MFI business, what's the loan growth that you expect to end the year with?



HP Singh: See, normally, what happens is most of the disbursement technically happened during the H2 of every year. So our sense is and whatever write-offs we had to do so what we've written is that we had a pre write-off growth of about 9%. Our sense is if now the write-offs have taken place to a large extent, we don't have any further write-offs which we feel would probably come in. I think we still stand by about 10% to 15% growth, which is going to be there for sure, of the rest of the year remaining the similar.

Moderator: Before we take our next question. We'd like to remind participants to ask a question you may enter star and one. The next question is from the line of Retesh Vatrana an Individual Investor. Please go ahead.

Retesh Vatrana: I have a question with regard to optimization of the equity in the company. So for example, if I see the equity statement for the standalone financial statements, it's higher as compared to consolidated financial statements. So what I understand is because the company has done the fair valuation of the subsidiaries. As a result, the profit is coming from a forward perspective also. While the console within the historical perspective, and then when I see further the additional investment done in the housing finance company, it was at premium of 198%. So like what are the steps you eventually want to take across. So basically because the market is discounting the share price as compared to the book value. While when you see that additional investors being done putting on the housing finance company, it's a premium to the par value. So what are the steps being taken by the management to take care of this?

HP Singh: So I think Retesh, our sense is, I think if you look at the history of our four years of the housing book, technically, whatever premium which has been fair valued by SEBI-I category registered valuer, probably looks at what an investment would do in terms of even if you go to the other method of not having an opportunity cost to it or the opportunity income to it, that is only the fair value which we've practically been taken across over there. And for a young organization, which has got so much of capital and a 0.4% GNPA, I don't think so the fair valuation probably has somewhere, which can be discounted by the investors in terms of the share price.

In fact, my view is completely the opposite. I think for people to really understand the value of what the subsidiaries are creating I think just looking at the share price or maybe by looking at other factors, it probably does not give you the right sense. But our sense is the way we've invested into these two subsidiary of ours and the way they are shaping up in terms of both portfolio quality, as well as disbursement, as well as the category which they serve in. My sense is, I think that monetization will happen at some point of time, and it's only for, I think, real values to really understand the values of both the subsidiaries put across together. That's my limited answer to this.

Retesh Vatrana: Yes. So Mr. Chairperson, going forward on this. So for example, what are the steps you think can be taken from the directors and management perspective to basically upscale the interpretation of the stakeholders and the valuation of the company. For example, do you contemplate to come across with a bonus issue or something different in that respect, so because



if I see, the paid up share capital is very less as compared to total equity side of the company, given the standalone financial statements. So are there pipelines, any thoughts on that, on bonus? Secondly, are there thoughts with regard to the dividend distribution policy because there is no dividend distributed by the company for quite a long time? So what are your thoughts on those periods?

HP Singh:

Retesh, my sense is I think you have to do your homework a little bit more in terms of understanding how an MFI operates and how the subsidiaries are related to the MFI operation. Technically, I haven't seen any MFI technically giving out a dividend or somebody giving out a bonus. So I think these are theoretical questions, which we are talking about. Our own sense is what do you have to understand, and I think for I think for the overall thought process, which is there, I think it's the business which we focus upon.

The way we are focusing on the business post the pandemic, I think that's one statement which we've given out across which says that our July '21 disbursements has a portfolio quality of 0.2% of GNPA. I think that's a very big statement which we made. In terms of our GNPA, which is there, post the pandemic, we've taken care of all the write-offs which have happened, all the pain which has happened, and today, if I exclude Assam, Assam is a separate category of thing which is happening across with the MoU being signed with the Assam government. We have no qualms that we will not get the money back from the Assam government, which will come in the category 1 and category 2 has already come in.

My sense is if you look at the GNPA post the pandemic, after all write-offs and everything which has happened, it's just 1.2%. I think it's probably one of the best in the entire industry. That is what we want to focus upon. I think for us, I think bonus shares, dividend, I think is the results speaks for themselves and the quarter speak for themselves and the business volumes speak for themselves. I think that's a sufficient ground for us to look at how this probably has to be looked at.

Retesh Vatrana:

I have one follow-up question on this. So with regard to the digital wallets being introduced by RBI, so is the company planning to do something on that front also?

HP Singh:

See, technically, we are technologically very sound in terms of creating our own wallet, our own websites as well as our own mechanism of actually doing transactions through cashless collection mode as well as the cashless disbursement, which you are doing. I haven't had too much of look into what the RBI wallet is all about.

But if it is significant for us to probably encompass into our own technology level, I think we have all the expertise in our technology level to probably look at it. But I clearly to be very honest, I don't have an idea too much about what the RBI wallet is all about because we have our own customer service app. We have our own app. We have UPI 2.0; we have various other mechanisms in which we can actually make a digital payment for our borrowers for collections, etcetera.



Moderator: Thank you. We'll take a next question from the line of Raunak Singhvi, a retail investor. Please go ahead.

Raunak Singhvi: Yes. Sir, my first question is basically on the Assam portfolio on this INR 137 crores of GNPA. You mentioned that and also in the presentation, the category 1 and category 2 release has been given by the government. So this INR 137 crores, out of which, how much we are expecting in category 2, as you mentioned, it has been released yesterday? And is the balance we'll recover everything in category 3 or do we have eventually any write-offs in this INR 137 crores?

HP Singh: I think some numbers I think Jugal will probably be able to give you. But just to give you an insight. So category 2 is the overdue amounts based on a certain cutoff date in which the government paid, it's not much in terms of, I think, I don't have the exact figure, but it's a very less amount technically, which has been released by the government. The underlying position is that since there are three categories, the more I think volume is in the category 3 borrowers in which all the overdue, I think amounts will be repaid by the state government to us basically. So that is the main one.

But the fact of the matter is that once the category 1 and category 2 have been released in probably a good time. I think category 3 is also there. I think we're getting dealers of giving our data to the state government now. So I think that work is also starting now which indicates that we'll probably be there.

Jugal Kataria: So just to give you an overall sense, as per the original MOU signed the cutoff date was March 21, which after due-discussion and the time lapse has that changed now to July of '22. So a lot of borrowers have moved from category 1 and category 2 to category 3. So most of the relief now is expected in the category 3, and then based on our best estimate, we have already provided for a large part of INR 137 crores, so we do not anticipate any further hit coming and coming from a client. So we have provided for almost INR 70-odd crores on the sand portfolio and are best estimate is that the relief in category 3 will be much more than the unprovided portion out of this INR 137 crores.

Raunak Singhvi: Sure. So out of this INR 137 crores, how much is from the policy perspective, how much is recoverable if everything goes well, that will give us a sense of the whether there is an over provisioning or there is a cushion in there?

HP Singh: So I can probably say that. So our sense is that out of that INR 137 crores, we are expecting close to 75% to 80%. 80% is what our belief is that we'll get back from the state government. And that's the reason why we are on a conservative basis, we've taken a 50% provision on to that. So we are hoping at least whatever we get from the Assam government, it would be close to about 75% to 80%. So that's the reason why we provided about 50% of that. So in any case, we are overly provided also in terms of what we get back from the government.

Raunak Singhvi: And we are expecting this in the best case scenario by end of the financial year?



- HP Singh:** Yes. I really hope so.
- Raunak Singhvi:** So one question on, so you -- the promoters have converted the warrants and paid up their share. So there was also a venture capital investor in Florintree, which had also subscribed to the warrants, so when is the management planning to call that money because the debt equity ratio is relatively higher compared to the peers in the industry. So that capital will just help you propel the next level of growth. So if you can indicate any time line, it will be helpful?
- Jugal Kataria:** Both promoters and the investor has time till July of next year. So it's not our call, it's basically the call of either the promoter who are the subscriber to warrants or the investor, it is their choice when they want to get it converted, and the lock-in will start from the time we allot them and those shares we get the permission to trade them. First, it's the investor's call when they want to put in the balance money, but it's actually they have time until next July.
- HP Singh:** And the other thing, I think what is where we technically have a capital adequacy of about 24%. I think we are in no hurry probably to look at the month, the growth starts hitting it, think if it can be done, then both of us are probably ready enough to bring in the required desired capital for growth.
- Raunak Singhvi:** So one more question on this, the write-offs there, as you have mentioned that there have been recoveries of INR 16 crores in this quarter. So what are we expecting from a future write-off recoveries perspective, do we expect a similar run rate because you have written a huge amount over the last few quarters. So are we expecting a similar run rate, or do we expect better recoveries, or do we expect the recoveries to be much leaner from the write-off book?
- HP Singh:** So don't ask me this, if it's a one-to-one question, I can probably give you a much optimistic figure. But since I think I've got a thought process to it. Let's keep it conservative. That will be the practically be the same amount, which probably will come in. But our endeavor is always to bring in much more what we can do and god willing, I think we probably will be successful in doing that level.
- Moderator:** Thank you. We'll take our next question from the line of Rishikesh Oza from Robo Capital. Please go ahead.
- Rishikesh Oza:** Sir, my first question is, why was our loan book flat quarter-on-quarter? And when can we start seeing the growth here, maybe from Q2, would it be fair to assume?
- HP Singh:** I think for us, I think the pain is over. I think we were more focus towards that rather than looking at disbursing and probably the first two quarters are always kind of easy on the in terms of our disbursement. But yes, I think the last two quarters will be pretty good. So we're looking at growth from there on. And we don't have any further stress which is left in our books. So I think we'll probably now focus on disbursement going forward.



Rishikesh Oza: Also, sir, the interest expense has actually dipped this quarter, while your interest income has increased. So could you please throw some light here?

Jugal Kataria: So one that we have done some direct assignment transaction where the net income goes to the topline. But just to give you an overall perspective, because of the risk-based pricing, etcetera, blended yield is expected to slowly go up. We have already started seeing some upside in our interest revenue we feel that on a slightly stable basis, this will go up by at least 1.5% or so over a period of time. On the cost of funding side, from last year fourth quarter to this first half, the cost of fund has gone up by 60 bps, 70 bps. So net-net will be benefited with the re-pricing and NIM will improve over a period of time.

Rishikesh Oza: And I think management gave a guidance of around 1.25% to 1.5% credit cost. So is it for H2 on an annualized basis?

HP Singh: See, guidance maybe, I just said it that look at the numbers, and that is what I said, if you extrapolate it, that is what I said.

Aditi Singh: That's after the write-off.

HP Singh: But after the write-off, but our sense is that I think it was just repeating it again, we look forward that we'll be able to manage our current book, which is now 84% of our portfolio. I think we're working towards asset quality to a large extent, I think we will maintain that. And hopefully, the credit cost will be within the range, what we mentioned.

Rishikesh Oza: And sir, could you please indicate what levels of cost-to-income ratio are you looking ahead?

HP Singh: See, I think till the time we are looking at maybe extra manpower to look at write-backs and other various things from where we can get bottom line significance in terms of numbers through these write-backs. I think it'll be slightly elevated, but we've brought it down, I think, our own sense is that once the AUM denominator starts increasing, I think on OpEx in terms of percentages will also start decreasing from there. Cost to income will also probably have a receive because of the increase now our pricing, which is there. I think we'll probably have some favorable impact on that also. My sense is whatever the cost-to-income ratios are now that will start dipping down from the quarters now ahead.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Ms. Aditi Singh, Head-Strategy for closing comments. Over to you.

Aditi Singh: Hi. Good evening, everyone, and thank you for coming on this call, taking out time on a Friday evening. I thank each one of you, and I hope we have addressed all your queries through our presentation, through the speech and the question answer that followed. In case there is some other information or clarification you wish to seek, you may reach out to me. My name is Aditi Singh. I, Head-Strategy for Satin. You can also reach out to my colleague, Ms. Shweta Bansal,



*Satin Creditcare Network Limited
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DGM, Investor Relations. Our details are there on the website. So that said, for today, stay healthy, stay safe and bye-bye.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Satin Creditcare Network Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.