"Satin Creditcare Network Limited
Q4 and FY 2023 Earnings Conference Call"
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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 Q4 and FY23 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now 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. Good morning, everyone. Thank you for taking the time to join us and discuss our financial results for Q4 and FY23. I hope you went through our quarterly results and investor presentation. In case you couldn't, they are available on our website and stock exchanges.

With great assurance, we would like to declare that FY23 has been a success not only in terms of meeting our annual performance guidelines and guidance, but also showing positive development in all operational and financial metrics, which would continue over the coming quarters and years. This year's performance is because of our dedicated and persistent team who are pursuing the collective goal of development of Satin.

Let me begin by discussing the fourth quarter performance this year, which was outstanding for us and featured strong performance across all parameters. Disbursement for the quarter stood at INR 2,546 crores as compared to INR 1,622 crores in Q4 FY23, registering a growth of 57% year-on-year. This has been our highest quarterly disbursement ever. The profit after-tax stood at INR 94 crores as against INR 60 crores in the previous year, a growth of 59% year-on-year. ROA stood at 4.9%, which was 3.3% in the previous year and ROE at 20.3%, which was 15.5% earlier. This was our highest ever profitability. The cost-to-income ratio was 45% for Q4 FY23. With operating efficiency playing out for us, we observed a reduction of 90 bps in opex to average AUM in comparison to Q4 FY22. Our opex ratio stood at 6.1%.

Coming to our annual performance, there was a substantial pickup in disbursement, which is up by 67% year-on-year at INR 8,087 crores on a consolidated basis. The standalone disbursement for the year stood at INR 7,390 crores, representing 83% growth from FY22. We have also started acquiring new clients. In Q4 FY23, first cycle clients accounted for 61% of standalone disbursements. We concluded a significant milestone by surpassing INR 9,000 crores in AUM on a consolidated basis, up by 20% from FY22. The standalone AUM stood at INR 7,929 crores, which grew by 24% year-on-year and 17% quarter-on-quarter.

In the fiscal year, the company centred its effort on elevating the stress in the restructured book and the figures speaks volume of our results. The book has reduced to 2.5% as on-book AUM.

In the last 12 months, a total of 67 branches have been opened up and we added 5,000 villages and a new state to our portfolio as part of our endeavour of deepening financial inclusion for the emancipation of the bottom of pyramid.

Coming to our Assam portfolio, with the support of our prudent approach, we are witnessing good ground and are optimistic of a turnaround in this geography. We have disbursed loans amounting to INR 271 crores during FY23. The delinquencies in this book have been negligible with PAR 1 at only 0.05% and PAR 90 at 0.01% as on 31st March 2023. The on-book AUM stood at INR 326 crores, that is 5.8% of on-book AUM. Under AMFIRS, Category 1 and 2 have been successfully completed. The groundwork for Category 3 borrowers viz the sampling of data by credit bureaus is going on.

The asset quality and collection efficiency are testimony to the core strength of our ground team and diligent assessment methodology. The new portfolio originated from July '21 onwards is performing exceptionally well, which constitutes about 94% of the on-book MFI portfolio with PAR 1 at 0.7% and PAR 90 at 0.3%, which is better than the industry standard as reported by CRIF Highmark. This demonstrates how effective our underwriting processes are.

The on-book GNPA of the company stood at INR 185 crores, that is 3.28% of on-book portfolio, down from 8.01% as on March '22. Assam constitutes INR 95 crores of on-book GNPA. Excluding Assam, GNPA as on March '23 stood at 1.70%. The company has sufficient on-book provisions. Our net NPA is 1.50%. The collection efficiency remained stable quarter-on-quarter for the reporting period and stood at 99.6%, excluding restructured portfolio. During the year, we experienced a strong recovery of INR 48 crores against write-off pool. This highlights the strength of our feet on the street and their resilience towards business and their commitment towards recovering our bad loans by repeated follow-ups and client engagement and motivation.

On the borrowing front, the company raised INR 6,846 crores during FY23 from various lenders, added 7 new lenders, demonstrating the confidence the market has in us and our business acumen. The company has ample liquidity of INR 1,029 crores as on Q4 FY23. Further, the company has a healthy CRAR of 26.6% as on 31st March '23. Up to now, the company has received INR 137 crores out of INR 225 crores of preferential allotment via the issue of equity shares and fully convertible warrants.

Moving further, our performance at SCNL is constantly guided by our respect for strong business fundamentals and we continue to focus on enhancing the quality of our balance sheet. And hence, this year, we recorded our highest ever profitability and delivered standalone PAT of INR 264 crores, resulting in an ROA of 3.5% and ROE at 15% for FY23.

In recent years, the social development goals have become the catalyst for accelerating the world's biggest challenges aiming from poverty and gender inequality to climate change. We realized the importance a few years ago and thought it was crucial to embed the principles of sustainability in the rebuilding efforts and hence, from there, we leverage our CSR activities to achieve the sustainable development goals. We are happy to share that we have been acknowledged for our work in the sustainability sphere and awarded by the Indian Social Impact Award 2023, for Best Education Support Initiative for the year '22-'23.

I would like to quickly touch upon a few awards and recognition recently won by Satin Creditcare. We have been recertified as Great Place to Work fourth time in a row and ranked among Top 25 best workplaces across the BFSI sector, being a testament to our work culture. We won the prestigious ET Excellence Award for best Operational Excellence initiative of the year for Train the Trainers initiative. This being evidence to our robust operational efficiency.

Along with the strong FY23 operational and financial performance, I would like to share a key development that took place this quarter, which is the merger of our two wholly owned subsidiary, Taraashna and SFL. The merger got effective from 1st March 2023.

Through unwavering adherence to our organizational values, we at Satin have always worked to establish a legacy of consistent growth and performance. We enjoy a close long-standing relationship with our stakeholders, which has led to brand trust that endures. With our robust operating model, proven execution capabilities, strong customer relationships and our robust balance sheet, we are well positioned to demonstrate good growth in the years to time. Going ahead, we are expecting to achieve AUM growth of 25% plus and a ROA of 3.5% plus.

Now, let me run through the financial and operational highlights of our company, starting with the consolidated highlights.

- Our AUM as on 31st March 2023, stood at INR 9,115 crores.
- We have a customer base of 28.3 lakh as of 31st March 2023, with presence across 1,287 branches.
- Our disbursement for the year 2023 stood at INR 8,087 crores as compared to INR 4,856 crores in FY22.
- The total revenue for the year stood at INR 1,559 crores, up by 13% year-on-year.
- Pre-provisioning operating profit was up by 69% year-on-year at INR 414 crores.

Standalone highlights.

- Our AUM, 31st March 2023 stood at INR 7,929 crores.
- Our standalone disbursement for the year stood at INR 7,390 crores as compared to INR 4,031 crores in FY22.
- Our average ticket size for MFI lending for the quarter stood at INR42,000.
- We have a well-diversified customer base over approximately 26 lakh clients, a well-penetrated vast network across 24 states and UT and 77% rural exposure.
- On-book GNPA reduced from 8.01% as on March '22 to 3.28% as on March '23. In absolute terms, it reduced from INR 412 crores to INR 185 crores; out of this, INR95 crores pertains to Assam.
- As of 31st March 2023, our total branch network count stood at 1,078 branches, which is spread across 384 districts. We have a total State and UT's count of 24, which makes us a well-diversified Pan-India microfinance player.
- As of 31, March 2023, 96% of our districts have less than 1% of portfolio exposure.
- Our Top 4 states contribute to 55% of total AUM in FY23 versus 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 INR 221 crores during FY23 under the products finance category, which includes loans for bicycles, solar products, home appliances, consumer durables, and water and sanitation.

An update on subsidiaries. Satin Housing Finance Limited has now reached an AUM of INR 505 crores, which grew by 59% year-on-year, having a presence across four states with 5,448 customers. SHFL has a 100% retail book. The quality of the portfolio remains intact with GNPA of 0.34% as on March '23. The company has 21 active lenders, including NHB-Refinance, a CRAR of 45.3%, and gearing of 2.3x. The company has a credit rating of BBB+. PAT for FY23 stood at INR6 crores.

Satin Finserv Limited, the company's MSME and BC lending arm, has reached an AUM of INR 682 crores. GNPA has stood at 4.14%. CRAR of 47% and a gearing of 1.2x. PAT for FY23 stood at INR 6 crores. Credit rating of BBB+ stable.

Lastly, as we continue the path of growth, we are prepared to the road of more profitability and cost efficiency.

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

Moderator: We have a first question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Congratulations on strong set of numbers. Sir, I would like to know on a standalone basis, what does the management think for the future when it comes to a comfortable debt-to-equity ratio? And I also want to know if the management is planning on raising any more funds going ahead?

HP Singh: Thank you so much. So our CRAR right now is at about 26.6%, and what we feel that having a 25% growth, the guidance which we've given, we technically feel, I think, the requirement, the pressing requirement is probably not there for us to raise any more capital right now. And having said that, looking at the way the sector is growing and the way we are growing in microfinance, I think for us, if we tend to overshoot this guidance of ours, then only I think it's a cause. We have a balance of about INR 83 crores, which has to come in as our convertible warrants, which are due by July this year. And once they come in, I think we'll get maybe an additional slight more capital, which will probably be infused. So for us right now, we feel that there is no pressing need for raising further capital.

Vignesh Iyer: Just a number if you could give what is your comfortable debt-to-equity ratio on the standalone balance sheet?

HP Singh: We are at about 3x. We can go up to 4x, 4.5x basically. So we still have room for gearing across over there.

Vignesh Iyer: Fair enough. Thank you, sir. I'll join back in the queue.

HP Singh: Yes, sure. Thank you.

Moderator: Thank you. We have our next question from the line of Amit Agarwal, an independent investor. Please go ahead.

Amit Agarwal: Hi Sir, Congratulations on good set of numbers. Sir, my question is like we have written-off so much assets in last two years, three years. So what is the total outstanding of written-off assets we have in our balance sheet as on 31, March 2023? And based on our past experience, how much can we expect to recover in say, next couple of years from that?

HP Singh: So, technically, if I start from the demonetization phase till now, my own sense is our written-off pool would be close to about INR 900 crores to about INR 1,000 crores. See, again, this is how we operate as a DNA of our company. We still go to a client who has been written-off because of demonetization or anywhere which is talked about pandemic. We have had the highest write back as I said in my opening remarks of about INR 48 crores. Now for us, we've got a separate team which looks only at write-off clients and the endeavour always is to get as much as possible as write backs because this is a straight P&L accretion which happens across over there.

For us going forward, we feel that we'll be able to at least manage about INR48 crores, INR50 crores year-on-year. That's the bare minimum. The endeavour always goes into get more-and-more, the teams are always pushed into, contribute more towards that. And that's what our endeavour is because having a separate team or a separate vertical which actually drives that. So my sense is INR 50 crores is bare minimum. More than that, I think we'll be happy to overachieve as we keep on overachieving everywhere else. We'll be there.

Amit Agarwal: Okay sir, one more question. Like, earlier we used to maintain lot of cash in our balance sheet so how much cash and cash equivalent we are expecting to maintain going forward since the stress is now coming down?

HP Singh: See, Amit, what has happened is during the pandemic, I think we were a little hard pressed that we wanted to probably be very conservative during those two years of the pandemic. That's the reason why we had a lot of bank balances left. Moving forward, this is the first time in our entire history that we've remained close to that about INR 1,000 crores mark. We wish to probably be in the same range moving forward ahead.

This is sufficient liquidity for us. If you look at the static ALMs, which we've been able to do, we still have about six months to seven months of static ALM. So, my sense is that gone are the days for us also when we used to keep a higher load of cash because of the pandemic and various other things which were going on. It will be range bound in what is there now as liquidity for 31, March.

Amit Agarwal: Okay. That is helpful. Thank you so much.

HP Singh: Thank you.

Moderator: Thank you. We have a question from the line of Vignesh Iyer, from Sequent Investments. Please go ahead.

Vignesh Iyer Hello, sir. Yes. Thank you for the opportunity, again. Just to understand this unsecured MFI portfolio, I have been tracking your company only for three months now. If you could just explain the strategies, you have put into to ensure that the unsecured part of the portfolio goes down. Because if you could just explain some part of it?

HP Singh: See, let me give you, maybe we have lesser questions to be asked, let me just give you an insight into what microfinance is all about. It is a very dynamic business model if you really ask me. I have put in about 30-odd years in this. It is unsecured by nature, but ultimately it has a lot of collateral which is attached because we follow the group model in terms of our working.

Now, when you look at this, technically you have got 10 women to 15 women who stand as a collateral guarantor to each other. So it is a moral and a peer pressure which works. In nature it will be unsecured, but if you really ask me in terms of the joint liability which it emanates, I think it remains quite positive in terms of the peer collateral which is there. It is very gender specific, one. That is also a huge advantage because if you look at women are normally financially far more disciplined than men. So the positive, which is there, which people tend to kindly slightly overlook, I think is that it is peer collateral, it is gender specific, and it is probably in the rural space, which is far more insulated than the urban scenario in terms of the vagaries of what happens in terms of your activities or maybe the economic system which works in urban. So these are the advantages which the microfinance portfolio has.

Vignesh Iyer: Okay, so but this diversifying your unsecured portfolio by floating subsidiary. I just want to know whether the holding company has given any guarantee regarding, has any guarantee or any sort of such things for any funds that is raised by your subsidiary, or it is, operating on its own?

HP Singh: No. So they are operating on their own. It's a complete set of separate dynamics. Since we are a parent, definitely, we stand over there in terms of business dynamic as such. Could be guarantee, could be comfort letters, could be, when they look at the parent company. I think, that's probably the way you should try and look at it. But these are standalone entities operating through their separate CEOs, through the separate business model across there, but definitely they do leverage the parents' legacy as such in terms of, how they have to grow. That is there.

Vignesh Iyer: Okay, and when it comes to expansion of branches, do you have any target in your mind for next year? Just to understand more on the part whether the opex to AUM is going to increase from year on due to expansion, or we are done with expansion and we are more looking to stabilize around disbursement?

HP Singh: See, as I told you earlier, 25% growth technically happens without doing too much on opex. Our opex reduced in the last year. It has come down to 6.1%. So there is no question of any opex increase. In fact, it's going to be a decrease from here only moving forward.

Vignesh Iyer: And how much branch expansion are we seeing from if you could have some ballpark number?

HP Singh: Very few about 50, 60, 70 branches, that's the ballpark number that's there.

Vignesh Iyer: Okay, fine. That's all from me. Thank you, sir. All the best.

HP Singh: Thank you.

Moderator: Thank you. We have our next question from the line of Rishikesh Oza from Robo Capital. Please go ahead.

Rishikesh Oza: Two questions from my side. Could you provide any guidance for credit cost and cost to income in next two years?

HP Singh: See, we have given guidance for ROA, basically, which would technically include credit costs coming in. We don't have a separate guidance for credit costs. Let me give you just maybe a slight insight. The industry is talking of close to 1.5% to 2% credit costs. I think if the industry talks about 2%, I think we will probably be better or maybe at their costs. So that's my statement on this.

Rishikesh Oza: And on cost to income, if you could guide sir, please?

HP Singh: Cost to income, again, if you look at it, we are down to about 45%. I think we've covered a lot of distance from there. In any case, as the opex, as I told the earlier question, was that we are only looking at bringing it down as optimum efficiency and the denominator base of growth kicks-in. I think the opex will also go down, so the cost to income ratio will technically also be on a downward trend.

Rishikesh Oza: Okay. That’s all. Thank you, sir.

HP Singh: Yes, thank you so much.

Moderator: Thank you. We have our next question from the line of Lalitabh Shrivastawa from Anvil. Please go ahead.

Lalitabh Shrivastawa: Good morning, sir, and thanks for the opportunity. Congratulations on a great set of numbers. My two questions are, first of all, if you can help us, how do you see the sensitivity of your lending rates or as well as the cost of funds, especially in the present environment of interest rates, and what is the sensitivity of that rate hike movement? First thing.

Secondly, if you can help us understand this, if I understand correctly, microfinance is generally a very -- in fact, touch incentive business. So it is, if I see, employees and other metrics, they have cost metrics also. They have trended down. So what differently you are doing here, the changes in the business mix, the business that you are doing on the ground side, if you can help us understand? So these are the two questions. Thank you.

HP Singh: So Lalitabh, the first question, the answer is I think we've had rate hikes which have happened. I think they have already been done to a very large extent. There are no further rate hikes coming in. So definitely, I think the cost of funds, whatever it is, will not probably inch upwards. That's one.

Secondly, in terms of us, I can say not with certainty, but with a lot of confidence. With this set of results, which have been there, I think we will have, at whatever point of time, maybe any kind of a rating upgrade, or maybe an outlook which might change, which will also put this in the positive category in terms of how the cost of funds are probably viewed on.

So that's probably the answer to your first question. And the second question is, you talked about, sorry, what was the second question?

Lalitabh Shrivastawa: So in the second question, I basically asked that generally, MFI is a touch incentive intensive business. Your employee numbers has been kind of stagnant, or actually it has been trending down. You are seeing benefits on the cost side also. But I would like to understand, as a business, what different you are doing on ground, and how do you see that the implications of lower employee profile in the headcount, at least, panning out, going forward on your business?

HP Singh: So if you've seen it, I think we've increased our AUM, and the headcount has, in fact, gone down in terms of our field employees. This is probably what we had wanted to do since the pandemic finished off. So the optimum efficiency of the loan officer, so borrowers per loan officer, is the optimum efficiency which we always target in terms of our this thing, including, I think, the various variables of how to increase the centre size and all that.

So I think the effort has probably gone on to that. And this will continue. The optimum efficiency will technically move positive in that rate. And this is how we've been able to achieve a better opex, a better operating efficiency, and a better profitability. I think this will keep on continuing, and this is our endeavour which moves on from here onwards.

Lalitabh Shrivastawa: Thank you.

HP Singh: Thank you.

Moderator: Thank you. We have our next question from the line of Vishal Gajwani from Aditya Birla Mutual Fund. Please go ahead.

Vishal Gajwani Hello, Mr. Singh.

HP Singh: Good morning.

Vishal Gajwani: Yes, just wanted to know in terms of the business mix between let's say MFI and non-MFI, what we can see is that last three, four years, the non-MFI has gone up from 6.3% to 12.3% last year. How should one look at this business mix shaping up going forward?

HP Singh: So as a baseline, I think both the non-microfinance book, which is the MSME and housing, has a lot of potential in terms of their growth. And we are moving slightly ahead. If I say that from 6% it has increased to 12%, I probably can maybe look at crystal rays for the next few years as such, maybe the next three, four years. I think this will increase to probably about 20% to 25%. In the next three to four years the mix will change because technically what MFI has is a larger denominator base. So I think the growth over the years, if we do a 20% to 25% increase there, and we have to do about 50% to keep it at par. So my sense is in the next three to four years we'll probably be in the range of about 20% to 25% overall AUM in terms of how these both subsidies are going to shape up.

Vishal Gajwani: Thank you.

HP Singh: Thank you so much.

Moderator: Thank you. We'll take a last question from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.

Suraj Nawandhar: Hello good morning, sir. Sir, what is your average cost of funds and average yield?

Jugal Kataria: You know, the cost of fund has gone up slightly, but we are getting most of the funds in the range of some 11.5% to 11.75%. Lending rates are close to about 24.75% for the last quarter.

Suraj Nawandhar: Okay. And have we been able to pass on all the cost of rising cost of funds to our customers or have we absorbed some of it?

Jugal Kataria: You know we don't reprice our existing customer but whatever we do, we do it on incremental lending. So this is how the industry has been working towards such a small loan, repricing the existing customer, that is standing on the ground. So this is how we do that. But our NIMs have improved over a period of time since the new portfolio is behaving fine. So yield losses are almost minimal.

Suraj Nawandhar: Okay, and just answering to the last question, you said that the housing and the MSME group book will grow as a percentage of total AUM, but in housing and MSME will have a smaller spreads compared to microfinance. So can we expect a compression in NIMs going forward in next two to three years?

HP Singh: See, the portfolio range which we look at and the environment which we work both for MSME as well as for housing finance to a large extent is the graduated microfinance customer which needs a higher ticket size in terms of MSME lending as well as a specific lending in terms of housing finance, where the yields are not compromised or under pressure because of what you find in urban housing as well as in maybe the urban space.

So this is predominantly rural which is working in where the yields again range for this portfolio to a large extent within about 20% plus. So over there the pressure is not there and moving forward ahead, I think when we talk about our housing finance, our average yield is about 15.5% to 16% and similarly for our MSME it is close to about 21.2%. So the pressure is not there because we do rural and a graduated microfinance customer to a large extent.

Suraj Nawandhar: Can you throw bit light on a broader perspective on the microfinance sector? We are hearing a very strong comment from other players as well, maybe IIFL or Credit Access or AU. What has changed in the overall microfinance as a sector? Where this growth is coming from?

HP Singh: It has become more of two factors. One, post the pandemic, I think the pent-up demand has really shot up in terms of income generation which has happened of the rural GDP growing up as well as the rural economics in terms of businesses growing up. That is one. The second is, I think there is a larger penetration by the MFI players as such overall all across and that demand is probably increasing with a larger penetration in each state to a larger extent.

When we talk about, I can just leave one thought with you is that we are talking about a INR 3,00,000 crores plus industry right now. This industry is poised in the next five years to probably grow at least four times or five times higher than what it was. So that is the depth I am talking about in terms of the microfinance sector's growth which probably can be seen by these numbers.

Suraj Nawandhar: So, you are saying that sector itself will grow 4x to 5x in next 5 years?

HP Singh: Yes, that is what my reading is.

Suraj Nawandhar: Okay. Thank you, sir.

HP Singh: Why I'm saying it, just to tell you, everybody is talking of a 25% growth year-on-year, and these are conservative numbers which the industry talks about. But the depth of the market is that big. The penetration levels per state, if I tell you the average would be about 15% to 20%. So there is a lot of room for microfinance players to probably have a solid growth in the next 4 to 5 years.

Suraj Nawandhar: Why are we not doing some aggressive branch expansion this year or probably next year? Because if the sector itself is going to grow 5x in next five years, then we should be ready for this or max by next year. So why are we not doing some aggressive branch expansion?

HP Singh: First, why is very easy to say but you have to actually have a perfect asset quality as well as various other factors which will take in. It's not just about growth, it has to be various metrics of optimum efficiency, cost efficiency, credit cost, asset quality, everything has to be taken into account. So you can only do what you feel is the best for the organization and I think that's the reason why we set guidance on 25% and rather to probably do 100% and then prepend later on. That probably went wrong on that.

Suraj Nawandhar: Can you say 25% is a conservative guidance?

HP Singh: Well, kind of.

Suraj Nawandhar: Thank you sir.

HP Singh: Thank you.

Moderator: Thank you. That was the last question for today. I would now like to hand the conference over to Ms. Aditi Singh, Head of Strategy for closing comments. Over to you.

Aditi Singh: Thank you. Thank you everyone who came on this call, and they took out time. We have to right now conclude this call, because there is a time constraint. I understand there are some people who still have questions and want to connect. Happy to connect with them offline. And my name is Aditi Singh. I head strategy. You can always reach out to me. You can always reach out to Ms. Shweta Bansal whose DGM Investor Relations. We will be happy to discuss, take your queries and run you through any numbers or clarification if you may. For now we shall say bye-bye for now until next quarter. Thank you very much. Have a great day.

Moderator: Thank you. On behalf of Satin Creditcare Network Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.