



“Satin Creditcare Network Limited
Q1 FY 2024 Earnings Conference Call”
July 28, 2023



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 Q1 FY '24 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 so much. Good evening, everyone. Thank you for coming on a Friday evening to attend our earnings call for Q1 FY '24. Amidst the news of flood, conjunctivitis and other infections I hope you and your family are safe and keeping healthy. I hope you have already seen our quarterly results and investor presentation. Those who have not seen them yet, can do so via our website and stock exchanges.

Furthermore, in case you haven't seen our integrated annual report for FY '23, it is available on our website now. I will give you a holistic view of our organization and provide a thorough dive into our strong business model and sustainability reporting. The microfinance sector in India had a spectacular journey over the past fiscal year with tailwinds of robust growth in rural economy, owing to increased credit demand on account of revival and economic activities. We too witnessed a great turnaround in our business momentum, led by growth in our customer base.

In pursuit of our endeavor to grow our outreach to accelerate financial inclusion, sustained business momentum and efficient underwriting capabilities, we remain relentless and continue to do so with the support of our human capital.

Coming to the first quarter performance of fiscal year 2024. It makes me happy to share with you all that it marks the best first quarter in terms of growth and profitability in the last 5 years, reflecting an unprecedented performance. Beginning with the operations for the quarter, we witnessed a strong growth impetus in the disbursement, which stood at INR 2,122 crores on a consolidated basis, up by 24% year-on-year, marking the highest ever Q1 disbursement in the last 5 years. The pickup in the disbursement led to the AUM growth of 26%, which now stands at INR 9,535 crores. The standalone gross loan portfolio stood at INR 8,367 crores, up by 31% year-on-year.

During the quarter, we added around 2.3 lakhs new clients and our customer base grew by 17% year-on-year. We continue to march ahead with our footprint expansion with the opening of 27 branches in the quarter on a consolidated basis, which will aid our future growth.

Throughout Q1, we kept up the trend of our healthy collection, a strong asset quality in lieu of the core strengths of our ground team and diligent assessment methodology. The new portfolio originated from July '21 onwards is displaying a remarkable performance, which constitutes about 96% of the on-book MFI portfolio with PAR 1 at 0.9% and PAR 90 at 0.5%, as reported by CRIF High Mark, which is the best in the industry. This is the testimony of our robust underwriting capabilities. The on-book GNPA of the company stood at INR 155 crores, which is 2.49% of the on-book portfolio, down from 4.31% in Q1 FY '23. The company has sufficient



on-book provisions amounting to INR 103 crores as on Q1 FY '24, which is 1.6% of on-book AUM.

Maintaining a strong collection discipline, our collection efficiency continues to remain stable and stood at 99.6% for the period under review. Continuing with our efforts to recover the write-off pool, we collected approximately INR 9 crores during the quarter.

On the borrowing front, exhibiting the confidence the market has in us and our business acumen, the company raised INR 2,148 crores during Q1 FY '24 as compared to INR 1,291 crores during Q1 FY '23, up by 66%. Of this, more than 80% is on-book borrowing.

The company has successfully completed the preferential allotment of INR 225 crores via the issuance of equity shares and fully convertible warrants after receiving the last tranche of INR 50 crores, which was received in July '23 from Florintree Ventures LLP.

Guided by our strong fundamentals, we have achieved our highest ever profitability in the first quarter of this financial year. Our standalone PAT stood at INR 86 crores, which grew by 43% year-on-year during Q1 FY '24. This resulted in ROA of 4.3% and ROE of 17.5%. Our operating efficiency significantly improved in the first quarter with the cost-to-income ratio declining from 71.1% in Q1 FY '23 to 48.9% in Q1 FY '24. Our operating expense to average AUM ratio stood at 5.8% in Q1 FY '24 as against 7.1% in Q1 FY '23, marking a significant reduction of 133 basis points.

In evidence through our prudent investment made in technology, the company has been recognized by the esteemed SKOCH Award for Excellence in Loan Management System where we won in the Silver Category. In addition to this remarkable accolade, the company has also been ranked 30th amongst the Top 100 Best Companies to Work for across all industries by Great Place to Work, India, reinforcing our commitment to create an outstanding work culture. I congratulate team for bringing this honor to us, and we took the award home for fourth year in a row.

We have consistently grown our footprint across the country, harness numerous prospects for business growth and invested in decisive actions that deliver great shareholder value for multiple stakeholders, guided by a strong regard for customer needs. The exceptional performance in Q1 FY '24 in line with our growth aspiration is attributed to significant customer and portfolio growth, and we are confident to demonstrate good performance in the quarters to come.

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

On consolidated highlights, our AUM as on 30th June 2023 stood at INR 9,535 crores. We have a customer base of 30.5 lakh as on 30th June 2023, with presence across 1,310 branches and 96,000 villages and 407 districts of India. We have a total state and UTs count of 24, which makes us a well-diversified Pan-India microfinance player.

Our top 4 states contribute to 54% of total AUM in Q1 FY '24, the states are UP, Bihar, West Bengal and Punjab. Our disbursement for Q1 FY '24 stood at INR 2,122 crores as compared to



INR 1,709 crores in Q1 FY '23. The total revenue for the quarter stood at INR 464 crores, up by 34% year-on-year. PAT for the quarter stood at INR 88 crores, ROA of 4.3% and ROE of 21%.

On the standalone highlights, our AUM as on 30th June 2023, stood at INR 8,367 crores. Our standalone disbursement for the quarter stood at INR 1,980 crores as compared to INR 1,554 crores in Q1 FY '23. Our average ticket size of MFI lending for the quarter stood at INR 43,000.

We have a well-diversified customer base of approximately 28 lakh clients with 77% rural exposure. PAT for the quarter stood at INR 86 crores as compared to INR 60 crores in Q1 FY '23. ROA of 4.3% as compared to 3.3% last year. ROE of 17.5% as compared to 14.7% last year. On-book GNPA reduced from 4.31% as on June '22, to 2.49% as on June '23. In absolute terms, it reduced from INR 217 crores to INR 155 crores.

During the quarter, ICRA has revised our rating outlook to A- stable from A- negative. Also we got NCD rating done from Infomeric at IVR A Stable. As on 30th June 2023, 96.1% of our districts have less than 1% of portfolio exposure.

Our well-thought of diversification strategy has enabled us to sail through difficult situation and capitalize on our idea of enriching our client base through financing of various products. We have disbursed around INR 45 crores during the reported quarter under the product finance category, which includes loan 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 514 crores, which grew by 55% year-on-year, having a presence across 4 states with 5,666 customers. SHFL has a 100% retail book. The quality of the portfolio remains intact with GNPA of 0.76% as of June '23. The company has 22 active lenders, including NHB refinance. CRAR of 46.1% and gearing on 2.5x. The company has a credit rating of BBB+ stable from CARE and Infomeric. PAT for Q1 '24 stood at INR 1 crores.

Satin Finserv Limited, the company's MSME and BC lending arm has reached an AUM of INR 654 crores, CRAR of 41% and gearing of 1.3x. PAT for Q1 FY '24, stood at INR 1 crores. Credit rating of BBB+ stable from CARE and Acuite.

Lastly, as we continue on the path of growth, we are prepared for the road of more profitability, coupled with cost efficiencies. And with this, I would like to open the floor for questions.

Moderator: The first question is from the line of Rahil Shah from Crown Capital.

Rahil Shah: Congratulations on the quarter. Just three questions from me, and it's just clubbed into one. So I just want your outlook on three things. So are you on track to achieve the guided AUM growth of 25% and more? Your cost of income has gone down, which is good. So what will be the sustainable number? But your ROA, return on asset has also dropped. So what will be the number you're looking for FY '24 on all these three?

HP Singh: So if I can answer you correctly, the guidance for 25% growth plus, I think we are well on track of that. It's the first quarter, which is probably the weakest quarter in the entire year as such. I

think we've done about 5.5% quarter-on-quarter growth. So I think that is definitely which is within our range, which we will achieve.

In terms of our profitability and ROA, my sense is the first quarter, again, which is weak, if you are comparing it with the quarter 4 of FY '23, which was 4.9%. I think we've not dropped too significantly down. I think the PAT standalone was about INR 94 crores. This time standalone PAT is about INR 86 crores.

My sense is, having seen a weak quarter in comparison to the last quarter, where the disbursement was also close to about INR 2,600 crores. We've done about INR 2,100 crores. My sense is as we go further and further quarters, I think that guidance of 3.5%. I think we have -- we will probably over achieved that, that's point number two.

So cost-to-income, my sense is will remain stable in terms of our NIM as well as the way we are looking at that. I think we are in the range of about 48%, it was 45% in the last quarter. I think it will remain range bound across over there. I think that is where we stand in terms of our cost-to- income also.

Rahil Shah: So cost to income and return on assets, you feel this number you're comfortable with. For the full year. All of this was for the full year, right?

HP Singh: Yes, exactly.

Moderator: The next question is from the line of Raunak Singhvi, an Individual Investor.

Raunak Sanghvi: Yes. Okay. So congratulations on a fantastic set of numbers. I have a few questions more so futuristic and a few questions on the current operation. One is any status on the Assam historical collections as we were to receive something from the government, right? Any update on that would be helpful. And any impact on the floods in the Northern part of India because we have seen unprecedented floods over the last 4 weeks and this would hit this quarter.

So any impact of that from a disbursement or a collections perspective? And also with Florintree completing their investment, and a lot of the historical investors were basically exited because of their fund life ending. So is there any diversity with Florintree also getting their nominee on the board, any plans there? And any future equity raising plans later this year? I recall there was an announcement a few weeks back that there was a potential transaction, but then it didn't go through. So I guess these four questions on this.

HP Singh: So let me answer one by one. In terms of Assam, I think -- we've shared our last bit of data with the state government in terms of category 3, the amount of money, which was supposed to come to us. We are very hopeful that once this has been shared now, I think we are awaiting now the first tranche to come in. My sense is, it could be coming in any point of time. So that's a big positive, which is happening but we'll still wait for till the time the actual money doesn't come in, but all indications point towards definitely, yes, that money, the first tranche will definitely come in.

In terms of our portfolio, which is just to give you an additional thing, the newer portfolio, which we've built post Assam crisis is one of the best performing in the entire industry as well as the entire country for us. So our GNPA over there, you won't believe it, it's 0.02%. So that is where Assam holds.

On the flood spurt in Northern India, yes, there has been a slight disruption in a couple of districts in Punjab and about a district in Haryana. So it has not affected the entire state. It is just I think if you put in total about 3 districts which have been affected. What it signifies is that there will be a slight disruption for about a month or so in these 3 districts. But having seen floods across in the last so many years as such, it's just a temporary blimp. So there is nothing which will probably affect our GNPA levels, our portfolio quality as well as our asset quality. So be rest assured on that.

This money, whatever little is disrupted. And if I give you maybe just a hypothetical figure out of a total of 5 lakh customer based in Punjab, I think about a 1,000 would have been affected. So that is what the numbers are. So I think you can probably be reassured on that which is there.

That's the second point. The third one, which you said in terms of our Florintree diversified shareholding. Yes, definitely with Florintree coming in, we will get a diversified marquee shareholder whose probably had multiple dream run as across over there. I hope his charm works on us also basically, I don't know whether numbers will work or what will work. But definitely, yes, I think we are on a very healthy upside on that.

In terms of the exits of a couple of our investors, these investors have been invested for about 8 years to 9 years as such. Their funds were coming to a close. So it's a natural phase for them to exit out of there and they have exited with a profitable exit, which also bodes very well for the - I think for the entire investor community, but they funds are coming to a close. They had no options, but to exit. So that is what has happened nothing, which is probably a cause where any thought can be raised across over that.

In terms of the equity raise, I can only give you an assurance, we've raised equity whenever we required it. If you look at our entire history of fundraising, we have raised the equity whenever we want it to or whenever the organization required it. And this will happen also in the future which will come in. The moment we feel that we significantly require equity for funding our profitable growth or funding our growth moving ahead, we'll be able to raise that. So that is going to happen across over there.

In terms of what happened in the previous, yes, there are conversations which always go on with investors across the Board. Sometimes you are able to achieve what you really want to look at through, but we have become slightly a little significantly looking at the way we want to look at the fresh set of investors who probably come in at this stage, we are at an inflection point of growing and moving in the next stage of life. So I think we keep that in mind once choosing an investor. So I think that probably, I think, is my comments for all the questions which you asked.

Raunak Sanghvi:

There was one sort of question also in that was around is, did Florintree have a nominee on the board because they being generally the norm greater than 10%, the shareholders would want a

nominee on the Board. And also considering the pedigree of the investor, what is your view and the company's view to get a Florintree representative on the Board?

HP Singh: There's no discussion on this, to be very honest. And I think for us, it's not necessary for any investor to probably be there on the Board to give any value-added services or any kind of a value-add thoughts to us. I think we always welcome all these kind of things from any investor who is there with us.

So that is what probably answers. I think it's more what you get from the investors rather than probably just having someone on the Board. That's what our thought is and that is how we deal with the Florintree also. We've got a good marquee investor, and we definitely look forward towards his contribution in helping the company grow to the next stage.

Moderator: The next question is from the line of Varun, an individual investor.

Varun: Congratulations on a good set of numbers. I have a few questions. First one is, can you elaborate on the reason for the decline in yield quarter-on-quarter? And second one is, I see that the on-book AUM has increased 10% quarter-on-quarter, but the direct assignments have decreased. So the ratio of direct assignments to total AUM has come down significantly. How do you see this trending going forward? The third one is what comprises of this negative INR 9 crores of comprehensive income on the standalone company and INR 2 crores on the housing finance company. The last one is the NIM in the housing finance subsidiary have declined significantly. What could be the reason behind that? And how do you expect it trending going forward?

HP Singh: So if I can break this, I can probably give you on the on-book DA this thing. So I think DA assignment, which happens is technically an answer to how the funding is rated. And we've always maintained that we would like to keep the assignment part technically in the range of about 20 to about 30-odd percent. That is where we stand right now. It all depends on quarter-to-quarter also. Technically, what happens in terms of the funding rate.

DA assignment works in terms of banks and everything we know during the last quarter, which is far more significant as compared to the first quarter. So I think we build up our kity across over there and it depends on this thing. So there is nothing which probably will do that. So with this decline, I think the on-book increases across over there.

Aditi Singh: And I think the way to look at the yield is you should look at the entire FY '23 and then compare the yield of this quarter, Varun, because Q4 had also significant high DA and hence a little bit of DA income, so the yield was a bit higher on that account. DA income gets normalized when you look at the year in totality and that's where you will see a positive uptick.

Jugal Kataria: Just to add, we have done the total direct assignment transaction of almost INR 800 crores in the fourth quarter. While this quarter it is close to about INR 400 crores. So that explains the variance between yield in Q4 and Q1.

Varun: Got it.



- Jugal Kataria:** That is when we are doing the fair valuation of the security receipt of the ARC transaction. So we have already made the provision for some part of the provision based on the security received valuation has to be routed for other comprehensive income. So that is the entry which is there in the other comprehensive income.
- Varun:** Got it. But that INR 9 crores and INR 2 crores seem like a significant amount, no?
- Jugal Kataria:** So that was already provided from the P&L account. So based on the securities receipt valuation. It has to be routed through the other comprehensive income as per our accounting policy. So we have done that.
- Varun:** Got it. Got it. And what about the NIMs in the housing finance company, they seem to be have fallen significantly as well?
- Jugal Kataria:** So the leverage is slightly increasing. So to that extent, the NIM percentage is going down. But as far as the lending rate and cost of funding margins are concerned, they are intact. So in line with our cost of funds, we are changing our lending rate.
- Varun:** Got it. Sorry, one last question. So if you look at your income statement, there is this bracket called other expenses. And again, those other expenses increased like 50% quarter-on-quarter. Like is there any one-off over there? And what actually forms a part of this other expenses?
- Jugal Kataria:** So from INR 22.51 crores, it has gone to about INR 27.74 crores, the volumes are increasing and then to that extent, there is increase. But if you see the overall opex, it has come down and overall opex is around 5.8% of the AUM and absolute number as the operations will increase, we have open the new branches, etc.
- Varun:** Sorry to interrupt you, but it's gone from INR 23 crores to INR 34 crores. And the delta seems again, a little bit large. It's a 50% increase quarter-on-quarter. I'm referring to Slide 31 of the presentation.
- Jugal Kataria:** So there is a forex impact, foreign exchange accounting impact on the things are corresponding about INR 5-odd crores is part of the expenses as well as part of the top line, which is a contra entry on hedging of ECB transaction, etc. But if you are seeing the pure operating cost, 5.8% is a number as against broadly 6.14% in the previous quarter.
- Moderator:** Ladies and gentlemen, that was our last question. I now hand the conference over to Ms. Aditi Singh, Head Strategy for closing comments.
- Aditi Singh:** Thanks, Lizann, and thank you, everyone, for coming on this call. We have tried to explain everything in the investor presentation and through this call. And still, we are open to get on a call or over e-mail exchange or discuss if you have any more queries. So you can reach out to me or my colleague, Shweta Bansal, in Investor Relations, and we will be happy to explain or clarify whatever you want to discuss with us. Thank you, and have a great evening and a great weekend. Stay safe, thank you.
- HP Singh:** Thank you, guys. Thank you, everyone.



Moderator:

Thank you, members of the management team. Ladies and gentlemen, on behalf of Satin Creditcare Network Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.