"Satin Creditcare Network Limited

Q4 & FY2024 Earnings Conference Call"

April 30, 2024

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 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Viral Shah from IIFL Securities. Thank you, and over to you, sir.

Viral Shah: Thank you, Zico. Good morning, everyone, and welcome to the Earnings Conference Call of Satin Creditcare Network Limited. From the company today, we have Mr. HP Singh, Chairman cum Managing Director, Satin Creditcare Network Limited and the senior management team. We will have a brief overview on the year and the business from the management team. Post which, we will open the floor for Q&A. With that, I would like to hand over to Mr. HP Singh for his opening comments. Thank you, and over to you, sir.

HP Singh: Thank you, Viral. Good morning, everyone. We thank you for joining to discuss our company's fourth quarter and the financial year 2024 performance. I believe you have had the opportunity to go through our quarterly results and investor presentation. If you haven't gone through them yet, you can access them on our website or through the stock exchanges.

The fiscal year FY '24 stands out as a momentous chapter in our 33-year long journey, where we reshaped countless opportunities, redefined our trajectory and met success in all financial and operational metrics. We witnessed growth in assets under management, AUM; recorded the highest yearly disbursement; observed robust customer addition; maintained our pristine asset quality; improved our net interest margin; reduced the Opex ratio; and fortified our capital base, paving the way for a successful year for all our stakeholders.

It's comforting to mention that we have surpassed the guided range of our standalone annual performance targets on most of the parameters such as: our AUM grew by 34% against the 25% plus guided range; NIM of 13.2% as against 12.1% to 12.5% guidance; ROA stood at 4.8% as against the 3.5% to 4% guided range; cost-to-income ratio stands at 42.6% as against 45% to 50% guidance; capital adequacy ratio stood at 27.7%, surpassing the guided range of 22% to 25%; debt-to-equity ratio at 2.7x as against 3.5x to 4x guided range.

The rest 3 are also well within guidance range, which are our Opex to average AUM ratio of 5.60% as against 5.60% to 5.75% guidance; credit cost of 1.44% as against guided range of 1.25% to 1.50%; and ROE that stood at 18.5% as against the 17.5% to 19% guidance.

Our Punjab portfolio performance was a little dampened due to the ongoing local challenges. However, by taking timely actions, we have been able to contain the issues. Our total on-book portfolio in Punjab stands at INR 369 crores as of March '24. Overall, PAR1 and Punjab stands at INR 35 crores and PAR90 at INR 19 crores. Out of this, PAR1 in the 10 affected branches stands at INR 23 crores and PAR90 is at INR 11 crores. Our collection efficiency in the state is 97% for FY '24 and 92% for Q4 FY '24. Currently, we have slowed down our disbursement in the affected areas and have deployed additional collection officers to engage with and motivate the clients, and we are meeting success in that.

Coming to our operational performance. We closed the financial year by recording 30% year-on-year growth in AUM. It stood at INR11,850 crores on a consolidated basis. On a standalone basis, the GLP stood at INR10,593 crores, up by 34%. Securing the INR10,000 crores milestone in SNL was a historic moment for us this year, underscoring our clients' trust and our team's resilience and fueling our momentum forward.

We continue to witness robust growth in our borrower base. We added 6.3 lakh customers on a consolidated basis and 7.8 lakhs on a standalone basis, highlighting our expanding footprint, operating efficiencies and growing demand for our services. We recorded our highest yearly disbursement both on a consolidated and standalone basis. Consolidated disbursements stood at INR10,549 crores. It grew by 30% year-on-year, and standalone at INR9,691 crores, up by 31%.

We forayed into 2 new states, Andhra Pradesh and Telangana, in line with our strategy to expand our inclusive charter to more individuals from low-income groups. With this expansion, our presence is spread across 26 states and union territories. The branch infrastructure now stands at 1,393 with the opening up of 107 new branches spread across 421 districts.

The robust underpinning of our organization, which includes our solid fundamentals, ethical work practices, customer-testing business approach and employee-focused operational framework have ensured our continued social relevance. As a result, we have emerged as a preferred financial ally for numerous low-income households throughout rural India. This is also evident from the healthy number of first-cycle customers at 55%.

During the reporting year, we maintained the trend of our healthy collection and asset quality. The on-book GNPA of the company stood at INR198 crores, which is 2.5% of the on-book portfolio. The company has sufficient on-book provision amounting to INR164 crores as on March 24, which is 2.1% of its on-book portfolio, exceeding the RBI-mandated provision requirement of INR148 crores. Furthermore, the overall provision coverage ratio stood at 83% as of March '24, marking a significant increase from 64% recorded in March '23.

The performance of the new portfolio originated from July '21 onwards continues to perform better than the industry, which constitutes about 97% of the on-book MFI portfolio with PAR1 at 2.5% against industry PAR1 at 5.9% and PAR90 at 1.5% against industry PAR90 at 3.6%. This demonstrates the effectiveness of our underwriting processes.

The collection efficiency remained consistent quarter-on-quarter for the reporting period and stood at 98.5% for the year on a standalone basis. The collection against write-off pool stood at INR46 crores. We commend our dedicated field staff for their best efforts in ensuring successful loan recovery through persistent follow-ups and client engagement.

This year, the industry witnessed a remarkable surge in credit demand from the rural market, a trend vividly illustrated in the figures of the industry's loan portfolio. The rising internet penetration, improved income levels and evolving aspiration lifestyle in rural areas are fostering an environment conducive to sustained growth in credit demand. Furthermore, the economic forecast is optimistic, the predictions of an above-normal monsoon in the coming time, which will, in turn, boost agricultural productivity and disposable income. All these factors being in good news for MFIs like us who are predominantly rural and catering to those at the bottom of the pyramid as we further enhance footprint into this expanding market.

Coming to our financials now. The company's consolidated net interest income grew by 43% to reach INR1,340 crores, largely driven by robust loan growth portfolio and the reporting financial year. The pre-provisioning operating profit for FY '24 stood at INR732 crores, registering a growth of 80% on a consolidated basis. And interest income and pre-provisioning operating profit on a standalone basis are at INR1,218 crores and INR699 crores, respectively.

Our profitability milestone touched the new mark as we recorded a PAT of INR436 crores as against INR5 crores in the previous fiscal year on a consolidated basis. On a standalone basis, we recorded a PAT of INR423 crores, up 60% year-on-year from INR264 crores in the previous fiscal year.

Our Opex to average AUM ratio witnessed significant improvement dropping to 5.8% on a consolidated basis compared to the previous 6.3%. Similarly, on a standalone basis, the ratio decreased to 5.6% from the previous 6.3%. These decrease in the percentage demonstrates our steadfast dedication to optimizing operational efficiency and resource allocation through our operations. Likewise, our cost-to-income ratio improved to 45.4% as against the 56.5% consolidated basis. And on a standalone basis, stood at 42.6% as against 54.3% in the previous fiscal.

On the borrowing front, this year, we have locked a 39% increase on a year-on-year basis and raised INR9,494 crores from various lenders on a standalone basis. Additionally, the company added 20 new lenders. We draw good comfort from our diversified liability profile with continued access to funds from domestic and international lenders, improved credit rating, also a well-capitalized balance sheet to maintain sufficient liquidity, and strong control on our borrowing costs.

Delving into our robust capitalization endeavour, we have successfully completed 15 rounds of capital raising since 2008, culminating in a remarkable sum of INR1,537 crores, out of which, INR595 crores was raised post-COVID-19, the last one being QIP of INR250 crores done in December '23. As of March '24, the company has ample liquidity of INR1,100 crores and has a healthy CRAR of 27.7%.

Sharing our perspective on the ongoing KYC issues in the industry, I would like to say that in light of increasing digitization, landscape is evolving rapidly. However, along with the myriad benefits also emerge significant challenges that demand vigilant attention, particularly in the realm of security. One such challenge is the rising occurrence of authenticity of KYC. At Satin, we take pride in upholding the highest standards in our internal processes in authentic customer onboarding.

Rigorously adhering to stringent guidelines and protocols, has been integral to safeguarding our customers' operation and maintaining transparency. With strong underwriting capability and bringing in cutting-edge and new age technologies to onboard our customers such as iris-based verification, geo-tagging, e-signature, etc.

We have strived hard to rule out instances of fraud, non-compliance and other potential issues.

Through strategic investment on our robust IT infrastructure, we are not just safeguarding our business operations, we are paving the way for enduring growth and triumph in ever-evolving digital realm. Over the past two years, our relentless pursuit of digitization has yielded tangible results. For instance, we have witnessed a remarkable reduction in our branch manual registers from 20 to just 6, which has led to a more streamlined processes and enhanced efficiency. With a very strong uptime of 99.6%, which translates into a very strong tech advantage, this combination of technological advancement and operational excellence propels us forward, ready to thrive in today's dynamic business landscape.

Like I said in the beginning, this year has proven to be a success for us and has demonstrated our resolution to excellence. We earned multiple laurels for our processes, compliance, innovation and consistent strong performance. To name a few, our company was awarded with the latest standard of ISO 27001:2022 for information security. We have received the highest rating and AA ESG rating and gold-level certification on client protection principles. We were recognized as Great Place to Work for the fifth consecutive year and top 50 Great Places to Work two years in a row, amongst others.

Going ahead, with an extensive reach spanning pan-India, a distinctive operating model, a diversified product portfolio in secured and unsecured lending, a robust technology infrastructure, seasoned Board and management personnel, a diversified liability profile, a resilient business model and a strong balance sheet, we are poised to be at the forefront.

Our aim is clear, to be the ultimate one-stop financial services provider, primarily in the rural India, differentiated by our process and technology and to emerge as a preferred financial ally for millions of underserved low-income households.

Now let me run you through the financial and operational highlights of our company, starting with consolidated highlights. We have a customer base of 34.7 lakhs as of 31st March 2024, with presence across 1,393 branches and 421 districts of India. Our top 4 states contribute to 56% of total AUM in FY'24, and the states are UP, Bihar, West Bengal and Madhya Pradesh. The total revenue for the year stood at INR2,241 crores, up by 44% year-on-year.

Standalone highlights. The average monthly disbursement run rate is about INR808 crores. Our average ticket size of MFI lending for FY'24 stood at 47,000. We have a well-diversified customer base of approximately now 34.4 lakhs clients with 76% rural exposure. 54% of our clients belong to first cycle as on March '24.

We have added 158 branches during the year. PAT for FY'24 is at INR433 crores, ROA at 4.8%, and ROE at 18.5%. Net worth stood at INR2,667 crores as on 31st March 2024. Total borrowings stood at INR7,269 crores as on 31 March 2024. Debt-to-equity ratio stood at 2.7x.

As on 31 March 2024, 96.4% of our districts have less than 1% of portfolio exposure. In our constant endeavor to enrich our customer life, we provide financing of various products, which includes loans for bicycles, solar products, home appliances, consumer durables and water and sanitation facilities.

An update on subsidiaries. Through the collective efforts of our subsidiaries, we aim to extend a spectrum of financial services to our client. By harnessing the strength our microfinance outreach, we endeavor to extend affordable housing and retail MSME loan, specifically to clients who have completed more than two loan cycles with the company and have higher credit requirements. This approach aligns us with the broader strategy of customer lifecycle management. By servicing microfinance graduated clients, we are not only deepening our relationship with existing clients but also capitalize on their revolving financial needs and capabilities.

Satin Housing Finance Limited has now reached an AUM of INR756 crores, which grew by 50% year-on-year, having presence across four states with 7,456 customers. SHFL has 100% retail book. The quality of our portfolio remains intact with GNPA of 0.8% as of March '24. The company has 26 active lenders, including NHB refinance. CRAR of 49.2% and gearing of 2.2x. PAT for FY'24 stood at INR9 crores. Credit rating of A- stable from ICRA.

Satin Finserv Limited, the company's MSME lending arm, has reached an AUM of INR501 crores. We are running down the business correspondent book and focusing on building MSME retail book going forward. CRAR of 48% and gearing of 1.4x. PAT for FY'24 stood at INR5 crores. Credit rating of A- stable from ICRA.

In summary, as we progress on the part of expansion, we are poised to embrace greater profitability while upholding cost efficiencies.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Usha Toshan from Toshan Investments. Please go ahead.

Prabhu Sharma: On behalf of Usha, I am [Prabhu Dayal Sharma. Sir, congratulations for presenting superb performance on all fronts. I have some questions. First, sir, our cost of funds almost higher by around 100 basis points compared to industry's leader while our credit rating is at par. Second, as you guided 25% CAGR growth till 2028, are you sure we will be able to achieve INR29,000 crores AUM by 2028 and 25% secured out of INR29,000 crores AUM?

Finally, sir, congratulations, you got India's most trusted leader award during the year, but I think some markets still not trusting or our past come across when we see the real value or market cap of the company.

HP Singh: So let me piece it one by one, basically. So on the cost of funds, on the rating, I think we've got an upgrade. Technically, I think COVID had the reason it had in terms of whatever the rating agencies would probably look at. But I think with the robust performance coming in now for the last, I think, about 10, 11 quarters on a trot, I think my sense is that this will keep on improving.

We've had success a little bit on our cost of borrowing, definitely yes. But if you really ask us, it's a constant feature, it's a work in process which happens practically every time when we go in. We've been able to have a slight reduction in our cost of funds, definitely, which is close to about 30-odd basis points. And definitely, I think this is going to be a feature which is probably going to be with us in the future.

On achieving our guidance of 25% plus, we are very, very positive and we are very sure that we'll be able to achieve a 25% guidance of all the factors mentioned above, in my own speech, where I said if you look at the macro condition, they are very conducive. If you look at the range of the branches, which we have in territories where there is lesser penetration. I think that is an advantage which we hold very well. For us, foraying into two new states, I think we've done wonderfully well by keeping our operating efficiencies better as well as reducing our exposure not beyond 1% in majority of what, 97% of our districts or whichever is there.

So I think a culmination of all that put together will probably give us that advantage that 25% plus for us is not even a slightest of challenge moving forward ahead. On the third, in terms of the market cap, I think probably I'm not the best person to give you an answer on that. I think it's for people to really decide. But my only take on this is that we've actually performed very well if you look at the complete data, which we've given in terms of our resilience, in terms of our profitability, in terms of our growth, in terms of our asset quality, in terms of I would add our technological advantage, which we have.

So when for us, onboarding of customers from a start of onboarding of a customer to probably getting money from write-off books, I think we've done it all. It is all a function of the market to really look at it. But I may add on to this, besides microtrends, I think we've got two babies which are coming up, which are becoming very, very strong now, which is our subsidiaries of Satin Finserv and Satin Housing. I think it is only a question of time, and people will actually be able to realize the ultimate benefits of these two subsidiaries when they come up the fold on a bigger scale. And I think for us, this is the advantage that we carry as an institution with microfinance and two of our secured lending subsidiaries of Finserv and SHFL. I hope I've answered all your questions.

Moderator: The next question is from the line of Sameer Bhise from JM Financial.

Sameer Bhise: Can you share the write-off amount for 4Q?

Aditi Singh: INR44 crores was the write-off amount in Q4 FY '24.

Sameer Bhise: Okay. And any details on what portfolio was it? Was it the pre-April '21 book or any specific state?

Aditi Singh: So actually, when we write off, we actually take because, see, our slippage is so less, we actually do account-by-account feedback from the team, where they have exhausted all their efforts and they give up. Majorly, it is 360 plus and above. But sometimes we even take a cost when it is earlier when the field team gives us that feedback.

Jugal Kataria: And then just to add, wherever we don't try, we make adequate provisions. So our provision coverage ratio is 83%. So wherever, sort of, say we have taken a call, but it has already been provided for.

Sameer Bhise: Okay, thanks. Secondly, if you could disclose the Stage 1 and Stage 2 provisions. May not be this time around, but as an ongoing practice, it will be great. If you could share the numbers, that will be helpful?

HP Singh: I think we can share the numbers with you basically off-line. But point taken, I think we'll be able to we'll show that also now.

Moderator: The next question is from the line of Nikhil Agarwal from VT Capital.

Nikhil Agarwal: So congratulations on good numbers on all fronts, except there's one clarification that I need on provisions. So with regard to this Punjab book, now this quarter, we were expecting that it would come back because the affected areas in the affected amount of portfolio was really very low, which is around INR14 crores, INR15 crores. And out of that, we have already seen, as stated in the presentation and as it's been earlier, we have already seen INR11 crores to INR12 crores of impact. So going forward, are there any other issues that you're going to see? Is this going to be repetitive? And again, on the write-off portfolio, if you could just give some clear view on where these write-off book have come from?

HP Singh: So on the Punjab portfolio, I think, if I can give you a flavour, the PAR1 has remained steady at about INR20-odd crores, INR23 crores since the last three to four months. So if you look at the deterioration in these 10 branches, I think that has not happened. So no fresh new PAR is coming in. It's only that the flow which is happening in this in the 90-plus that is probably which has been there. And that which is also if you really look at the overall scenario, I think in terms of the complete balance sheet size, this is practically insignificant. So that's on that.

Write-off is, there's no specific write-offs. Technically, write-offs is a function of what the field technically says that they'll not be able to collect as well as a function of maybe somewhere a DPD. Overall, it is practically it's everywhere. We pick up wherever it is not coming. So it's not very state-specific as such, if that is what you really want to know. And there is nothing in terms of looking at. We do it case-by-case basis with consultation with the operation team.

Nikhil Agarwal: All right. And sir, with regard to PAR90 plus flows because of which we have seen stress in the Punjab book. Those PAR90 plus flows have also elapsed or there's more on this because I understand that PAR1 plus you are not seeing any fresh threat. But in the PAR90 plus flows, which are back ended, is there any more impact left?

HP Singh: INR11 crores. If you look at PAR1, which is 23, inclusive of that INR11 crores, what you might have maybe an addition going forward will be another maybe INR5 crores, INR7 crores, INR8 crores, INR10 crores, which will probably come in which as I said, if you look and to complete construct of the overall credit cost and the credit cost is 1.44%. I think which is probably pretty healthy looking at whatever is going on in the entire country in terms of how microfinance industry is shaping up. I think my sense is that this board that there has been an effective stoppage of probably in the flows into the even in the Punjab circle as such.

Nikhil Agarwal: Got it. That gives great clarity. The INR7 crores, INR8 crores that you're saying that might come whatever number, it is five to 10? Is that gradual? Or is it a onetime thing that comes? So does it hit the book suddenly or like one quarter thing? Or is it staggered over two, three quarters?

HP Singh: My sense is it could keep staggered over two quarters as such basically. But I think it's a very low number as compared to what people's apprehension was on Punjab portfolio. So I think even if it staggered across maybe will be about INR5 crores, INR7 crores per quarter as such at max.

Nikhil Agarwal: Got it. Thank you so much. Also, can I ask one more question, please?

HP Singh: Please go ahead.

Nikhil Agarwal: Okay. One thing. We have the highest operating expense ratio in the space that you operate in, all right, in the MFI space.

HP Singh: Sorry Nikhil, you need to check your facts. We don't have the highest. In fact, we're closer to probably the lowest.

Aditi Singh: Yes. So we are what everyone is, barring the largest player in the industry, practically, if you see another competitor declared their results, their opex is 6.6, and ours is actually at the average and at the lower spectrum of the average, barring the industry leader.

Nikhil Agarwal: I'm looking only at the standalone MFI book, and I'm comparing it to the top three players.

Aditi Singh: That is what I am referring to the standalone book. Okay, let's talk the last quarter numbers. In last quarter, we were actually at the lower end of the spectrum when we look at the opex of I said except the industry leader, rest everyone is from 5.8% to 6.2%. And we were at, again, 5.8%, 5.9%. If you talk about last quarter, is where we are.

Nikhil Agarwal: All right. And are we doing anything suspect to bring this down? Is there a time line when operating leverage is expected to kick in?

HP Singh: This is work in process. Our endeavor always is to bring it the opex down, to bring in more optimization and with the denominator base increasing I think we will be able to achieve something or the other in the opex coming down the line.

Aditi Singh: So we have actually given a slide on the operating efficiency. And if you see we have actually achieved more than 25% operating efficiency on the existing setup of whether it is the branches, loan account per loan officer or the clients per center, etc. One is this. And second, of course, is the base effect, which takes it into account.

Jugal Kataria: There is significant improvement during last financial year, and we are on the lower end of the guidance that we have given. So and then we are sort of committed to work harder and then sort of keep it, improve it further. But you see the improvement from last year is quite significant.

Nikhil Agarwal: Yes. That is perfectly visible. Congratulations and thank you. That's all.

HP Singh: Thank you, Nikhil.

Moderator: Thank you. The next question is from the line of Siddharth Oberoi from Prudent Equity. Please go ahead.

Siddharth Oberoi: So this is a fantastic set of financial numbers that you've announced. My query is on the AUM growth. So you've been growing for the last few quarters at 30% plus. The disbursements are also 30%. So is there some pent-up demand that has come up or is it do you think this is sustainable going forward?

HP Singh: Siddharth I think about as per our guidance for us we've given 25% plus. And our forays into underpenetrated states and as well as taking on new stake along with the existing borrower base and the deepening of geographical presence in under penetrated states. I think for us a 25% plus growth is absolutely a no-brainer to be very honest.

In fact, for us the achievement always has been to try and beat that and definitely I think we've beaten this year, we'll probably be able to do that.

Aditi Singh: And just to add to why the 25% growth is a no-brainer, even if you see this year the growth in clients is more than 22%. And so actually it's a very sustainable organic business volume growth. It is not merely on account of the ticket size which is not growing as much as the overall growth.

Siddharth Oberoi: So is it any particular region or is this all the 26 states?

Aditi Singh: I'm glad you asked this question because when we got the market study done when we did our QIP we actually saw that we are actually present in underpenetrated or lesser penetrated geographies across the industry vis-a-vis our peers and competition. For instance, states like UP, states like Assam, states like the Central part of India, etc., are barely two digits in terms of the penetration. But if you look at the overall addressable population there is a huge pent-up demand. And we are also seeing even the industry is taking note of it and they are also wanting to go to these underpenetrated state away from the original hub of microfinance which was Southern India.

Siddharth Oberoi: So basically that was my question that this loan growth is sustainable then so ballpark do we expect something like a 14,000 crores AUM probably for FY '24, '25?

HP Singh: Siddharth anybody's guess, but we'll try and touch to be closer to that for sure.

Siddharth Oberoi: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Shreyans Jain from Electrum PMS. Please go ahead.

Shreyans Jain: Congratulations on a great set of numbers. Just have one question. One of our competitors mentioned that there is Karj Mukti Abhiyan happening in Rajasthan and MP as well. Like are we seeing some stress there or like what's the situation on the ground there?

HP Singh: To be very honest we haven't seen any stress because of Karj Mukti Abhiyan in Rajasthan as well as MP and all. For us, it's business as normal.

Shreyans Jain: Like no impact, zero impact?

HP Singh: No. Not at all.

Shreyans Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Amit Agarwal from WaterEquity. Please go ahead.

Amit Agarwal: Thank you for the opportunity. So my question it ties to somebody just said that Satin seems to be present in more of under penetrated or unpenetrated district. I just wanted to understand this 57% loan one customer I'm assuming it's for Satin loan one not new to credit.

So my one question is what is the breakup of that 57% in terms of new to credit and new to Satin from older MFI? And second point is do you do risk based pricing for these customers who are into higher cycles who were matured? Is there any mechanism for risk based pricing?

Aditi Singh: So, in first cycle while there are 55% first-cycle customers for Satin for every incremental disbursement 18% to 20% are actually new to credit. So, that was your first question.

Aditi Singh: And we are actually going to we have just introduced. We have now introduced risk-based pricing for the subsequent cycles. So this has been done effective April.

HP Singh: 1st April.

Amit Agarwal: So I'm asking what is the incremental benefit you are giving to the subsequent cycle customers?

HP Singh: Technically, overall it becomes about 40 basis points lesser than from where we started.

Amit Agarwal: Okay. That's helpful to me. Thank you.

Moderator: Thank you. The next question is from the line of Raunak Singhvi who is an investor. Please go ahead.

Raunak Singhvi: Congratulations for a fantastic set of numbers. I just wanted to understand. So yesterday, RBI basically came across with a note under unfair practices in charging of interest. I just wanted to check if Satin is not following any of those practices this is from a comfort perspective?

Jugal Kataria: So there's absolutely no impact of this circular on Satin. We electronically disburse all the loan and the interest is charged from the time it is credited to customers' account.

Raunak Singhvi: Another question was basically on the provisions and across NPA. What is the legacy Assam book which is still sort of lying in the gross NPA and any status update on the recoveries from the government?

Jugal Kataria: So the old book is close to about INR60 crores which has adequately been provided for. The discussion with the government is on through the industry association. It's slightly challenging to commit a time line, but there's no indication that will not happen. It's only a question of time.

Raunak Singhvi: Thank you. These were my only question.

Moderator: Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: Sir, what is our guidance in terms of ROA and NIMs for this year? We have very well surpassed our previous guidance. So now how do you see it shaping up for the rest of the year now?

HP Singh: So NIMs I think we are guiding at about the band which we have given earlier is about 12.25% to 12.75%. And the ROA the guidance is at about 4.25% to 4.75% for FY '25.

Rahil Shah: So I mean, for FY '24, I believe you have done much higher than that, correct?

HP Singh: We always are very conservative.

Rahil Shah: Okay. So you're sticking to the previous guidance.

HP Singh: Yes. So we're sticking to the previous guidance.

Rahil Shah: And when it comes to the growth you're expecting you're saying it's a no-brainer. So do you see it happening more from the, in terms of client addition or from the geographies in which you are present or it's a mixture of both?

HP Singh: It's a mixture of both, yes.

Rahil Shah: Thank you and all the best.

HP Singh: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Fialoke from Ratnatraya Capital. Please go ahead.

Chirag Fialoke: Hi, good morning. Thank you for the opportunity. Congratulations on a good set of numbers. Just two clarifications quickly. What was the gross slippage for Q4 and for the year?

Jugal Kataria: So in Q4 the slippages close to about INR60-odd crores. And for the entire year including something has already been written out of that was about INR140 crores. These are gross slippages.

Chirag Fialoke: Understood. So 60 and 140 for the year?

Jugal Kataria: These are slippages to 90 plus.

Chirag Fialoke: And could you just talk about how do you think from here side cost will evolve for the next 12 months to 18 months? Broadly, what are you seeing on the ground and what do you think we will end up at the end of say'25, '26?

HP Singh: See, our guidance is still which we had given for the credit cost was at about 1.5% to 1.75%. We did about 1.5%. I think maybe early days as yet, but we feel that it's going to be stable within this guided range of ours, of 1.5% to 1.75%. That's what our thought process. And looking at the ground, I think we're just waiting for the elections to finish off. And once that finishes off and the results come out, we may look at, relook at it basically. But as of now, currently, we look that this is going to be within the guided range in itself.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Congratulations on a good set of numbers. Sir, my question again is related to ROA more on a consolidated-level basis. So looking at more 3 or 4 years down the line, what is the steady-state ROA that we can achieve?

HP Singh: See, for us, we did an analyst meet. And I think for us, a steady state, including consol and everything, for us, would be again in the range of about 4.8% or so. You know that's the steady state, which we are trying to look at. So it will be within that range of about, let's say, 4.8% to let's say 4.9% or 5% I think it is going to be within that realm.

Vignesh Iyer: This includes, I mean, this is at the consolidated basis, right?

HP Singh: Yes. Yes.

Vignesh Iyer: And what would the number be for ROE?

HP Singh: ROE would be, I think, 20% plus for sure. We've done 18.5% this year. My sense is in, I think, for us, we're looking at the capital adequacy, profitability, ROA, and all of them put together, I think it will be always the 20% plus. Could be in the range of 21%, 22%. And I think that is what our effective consolidated basis is.

Vignesh Iyer: Okay. So sir, as the growth rate were again 25% or even more than that. So what would be the mix of the off book lending to the total AUM, a number if you could share with us?

HP Singh: So I think, for us, we are dropping our off book slowly and steadily the year-on-year. I think the year before that, it was closer to about...

Aditi Singh: 29%.

HP Singh: 29%. We are down to about...

Aditi Singh: 23%.

HP Singh: 23% now. For us, for us going forward, we would be bringing it down to, I think, closer to about 20% or lower than that in the next couple of years. I think it's going to be below 20% for sure.

Moderator: The next question is from the line of Suryansh from Bizx Enterprise LLP.

Suryansh: Congratulations. My question was that what is the average cost of borrowing and versus like incremental cost of funds? This was my question.

Jugal Kataria: So marginal cost of borrowing is closer to 11.5% or so. We've got the rating upgrade only towards the beginning of last quarter. We've started getting some overall success there. The blended cost will come down over a period of time.

Suryansh: Okay. And will we go for capital raise near time? Or we have done whatever we have to raise?

HP Singh: We're looking at 25% plus growth and the capital adequacy right now, I think we don't have any kind of thought process of going for any capital raise in the immediate future.

Moderator: The next question is from the line of Agastya Dave from CAO Capital.

Agastya Dave: Congratulations on a great set of numbers. So I have few questions. So first is a follow-up on what Aditi ji was saying in terms of penetration levels. So Aditi ji, how are you defining this penetration level that you said that UP is this double digit?

Aditi Singh: So Agastya, this is actually done on the basis of the total addressable households who are below a certain income level and how much households have availed any formal credit, including microfinance.

Agastya Dave: Pan India, how much would you like what kind of number would you describe to this penetration based on this product?

Aditi Singh: We do not have pan India. What we have seen from that CRISIL Report is Tamil Nadu has been, has the highest, around 60%, 65%, followed by states like Bihar and Karnataka at around 55-odd percent. So this is what the high penetration is. around 60%, 65% is the highest across the industry.

Agastya Dave: And when you say UP's double digit, you meant like 11%, 12% or 20%...

Aditi Singh: 17% to 18% is the number for UP.

HP Singh: Just for comparison, UP is about 17% penetration as compared to these higher states of about 60%, 65%. So that's the difference.

Agastya Dave: And sir, individually, if you look at like across geographies, how, what is the if you compare households of Tamil Nadu with UP, I'm pretty sure the propensity to borrow would be different and the amount to which ticket they are comfortable borrowing, that will also be different. So if you just do a household by household comparison, what would be the related size of UP with respect to, let's say, Tamil Nadu and Andhra Pradesh?

Aditi Singh: The size in terms of number of people or income levels?

Agastya Dave: No, I'm saying the extent let's say, income level or the borrowing levels. For example, in Tamil Nadu, probably you can give INR1 lakh. In UP, can you give INR1 lakh? That is the question.

Aditi Singh: Actually, it is the opposite. In UP, we can give more because after the HHI norms, etc., what we can actually lend to a household, we are restricted in Southern India. The rejections are higher at almost 65%, 70%, while the rejections in UP are 20-odd percent. So because of that and the thing is repaying capacity across India people have in microfinance. So I would say 90%, 95% in people of microfinance borrowers do have the repayment capacity.

HP Singh: And just to give you a flavor, Western UP is probably the highest in terms of income generating levels as compared to probably most of the states.

Agastya Dave: Sir, another thing was that I remember many years back, you started your cashless initiatives for disbursements as well as collection. So what levels have you reached today? And in terms of the process of driving this cashless disbursements and collection, how do you do it? Is it like do you have a nodal bank where all the accounts are linked to that bank and the transactions happen through one nodal bank? Or are you more diversified and you go to a particular customer and a particular borrower? And if they have say, in SBI, then you transfer the money in to SBI, they have in Canara Bank, you will do it to Canara Bank, how exactly is this structured?

HP Singh: So we are bank agnostic in terms of our cashless collections. For us, we've got the methodologies of our website, QR code as well as app and everywhere and UPI coming in across over there. If you look at it pure cashless without our stuffing money is about 10%.

Now when we talk about cashless collection, I think for us, what is more important for us is the customer to be there in the meeting. And normally, we've seen that if a customer actually goes through a cashless mode of making a payment for her, attending a meeting is kind of, they tend to avoid the meeting. We don't want that.

That's the reason why for us, the model is based upon customer connect and the repo with the customer. And that's the reason why, for us, this has remained at about 10%, and we would like the customer to come to the meeting, have a physical presence. And the interaction with the loan officer probably gives us more insight in terms of the portfolio quality and the credit asset quality as such.

But to add up for us, all the cash is handled by our by our agencies, which already do cashless collection. It is technically cashless collection through their associates, which are being done. So normally for us, our boys only bring the cash to the branch, and the rest, everything is handled by these cash drop agencies.

Jugal Kataria: And also, you mentioned about disbursement also. For the last many years, we have been doing 100% in cashless disbursement.

Agastya Dave: Sir, I asked this question because RBI recently has been imposing several restrictions on individual banks, citing whether IT-related issues or compliance-related issues. So if it may not be your fault at all. If you are heavily concentrated to one nodal bank and if they find something wrong in that bank's processes, your disbursements may get hit. So that is why I asked this question. Is there a risk to that?

HP Singh: The acquisition of onboarding of our customers is absolutely very, very effortless with authentication of KYC from an iris mechanism, which I think is getting introduced in banks now. So we actually have no problem, could be a problem of a bank. We've got several banks which are lined up. So we don't have a problem with a not a single bank. There are a lot of banks.

Agastya Dave: Sir, may I ask one more question. Otherwise, I'll go back in the queue. Tiny question.

HP Singh: Tiny answer then. Please ask me.

Agastya Dave: Sir, are you seeing any slowdown because of the elections in Q1 because this is this time around, it is a very prolonged election like there is a lot of disruption at the ground level. So any impact that we can expect in Q1.

HP Singh: A little bit in terms of disbursement. But I think added to disbursement, this whole season is all about harvesting. This whole season is all about marriages. The whole season is all about technically, people not being available because of various factors of festivals being there. So we had all these Baisaki, Bihu, Bengali New Year, everything and so. I think if you put all that culmination together, it will be slightly slower in terms of disbursement. But I think my sense is that who may come in and I think we'll be able to bounce back in the normal parlance as such in terms of disbursement.

Moderator: The next question is from the line of Prathamesh Sawant from Axis Securities.

Prathamesh Sawant: Congratulations on a great set of numbers to Satin and the team. My question is with respect to sir, that we are seeing in the last 2, 3 years that the overall NPA levels have been going down throughout the industry. So I just wanted to understand from your piece of experience, whether it is because of the political stability that has been coming around in your key markets? And given that we are seeing that the same political stability to continue for the next 5 years, do we see this kind of NPA number for the next 5 years? Or is it just we are at the good end of the broader cycle? So I just wanted to have what are your insights on this?

HP Singh: See, I'll be very apolitical when I answer this. Definitely, yes, the stable environment does add on to the NPA levels going down. But having said that, I think for us, the more focused as an institution we are towards asset quality and credit cost, I think the underwriting capabilities actually come back to the fore, which is more important.

So I think stability does add to it. But that's what we, as an institution, are trying very hard to do and to maintain our underwriting capabilities, augment our underwriting capabilities, look at customer acquisition through all the lens. And that's the reason why we said that for us, iris verification and all that acquisition rerating gives us maybe a slight edge in terms of how we are able to do the acquisition and the underwriting of our customers moving forward. And that will be a significant thing which we really want to really concentrate upon and look forward to.

Prathamesh Sawant: And sir, lastly, again, most of my questions have been answered. So just one broader question on the structural nature. What are the two or one biggest risk that you see foresee coming?

HP Singh: Doesn't tell you when it comes. But as an endeavor for us, we are always on our toes to really look at probably the ways and means how to do it. And just to give you that example, for us, Punjab came in without even other things. But since we have capability in our technology, in our data, in our underwriting, and we have a capability which we feel is sufficient enough, we were able to contain the damage in Punjab much better than what the industry has been talking about. I think that's probably the answer which I can give you.

Prathamesh Sawant: Do you see any structural overhang where RBI comes in and controlling on the rates that the MFIs face? Do you see foresee that as a risk?

HP Singh: See, that's not a risk. That's a collaborative effort where the RBI would definitely love us as an institution to probably give a lower credit output to our borrowers and definitely and we are all moving towards that. So the reason why we've done risk-based pricing and looking at a 40 basis point reduction from 1st of April, definitely is something where I think it's been a collaborative effort with RBI and all the MFIs put together.

Prathamesh Sawant: Wouldn't that impact, have an impact on your target ROAs and ROEs guidance?

HP Singh: It won't. You've seen our guidance. You've got other ways to probably cut down other things. You can cut down on your opex, you can look at credit costs, you can look at cost of funds. There too many features in which can probably be there. Any reduction in ultimate cost will be coped up with five other factors which will probably be able to give you that kind of a concern.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Ms. Aditi Singh, Head Strategy, for closing comments.

Aditi Singh: Hello, everyone, and thank you so much for taking time to come on this call, for all the engaging questions and for all the trust you have shown, for all the support. We have tried to answer all of the questions. And still, if you want any further follow-on discussions, you can reach out to me or my colleague, Ms. Shweta Bansal, from the Investor Relations team, and we'll be more than happy to discuss and share more perspectives on any topic you want to discuss in details. Have a great day, everyone. Thank you.

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.