"Satin Creditcare Network Limited

Q2 & H1 FY25 Earnings Conference Call"

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MANAGEMENT:	MR. HP SINGH – CHAIRMAN CUM MANAGING DIRECTOR MR. JUGAL KATARIA – GROUP CONTROLLER MS. ADITI SINGH – CHIEF STRATEGY OFFICER
MODERATOR:	MR. KAPIL YADAV – DOLAT CAPITAL

Moderator: Ladies and gentlemen, Good day, and welcome to the Q2 and H1 FY '25 Earnings Conference Call of Satin Creditcare Network Limited, hosted by Dolat Capital. 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. Kapil Yadav from Dolat Capital. Thank you, and over to you, sir.

Kapil Yadav: Thank you, Yousuf. On behalf of Dolat Capital, I welcome all the participants on this call. And I thank management of Satin Creditcare Network Limited for the opportunity to host this call. For today's call, we have with us the senior members from the management side, Shri HP Singh ji, Chairman cum Managing Director; Mr. Jugal Kataria, Group Controller; Ms. Aditi Singh, Chief Strategy Officer.

And with this, I now hand over the conference to Shri HP Singh ji, CMD, to preside over the call. Thank you, and over to you, sir.

HP Singh: Thank you, Kapil. Good evening, everyone. Thank you for joining to discuss our performance during the second quarter and the first half of financial year '24-'25. I hope you and your family enjoyed the festive season and enjoying good health, too. I believe you have had the opportunity to go through our quarterly results and investor presentation. If you have not gone through them yet, you can access them on our website or through the stock exchanges.

I'll start the discussion on our Q2 and H1 FY '25 performance with expression of gratitude towards our Board of Directors, customers, employees and all other stakeholders for their unwavering support, perseverance and confidence as we complete 34 years of existence on 16th October 2024.

As we continue our journey, our mission to positively impact lives nationwide remains at the heart of everything we do. This commitment compels us to look ahead constantly, asking ourselves what's next. With this forward-thinking mindset, we have expanded our financial inclusion efforts going beyond microfinance to offer a diverse range of services.

Our aim is clear to become a one-stop provider of diversified financial solutions for rural India, defined by our commitment to innovative processes and cutting-edge technology. Through our subsidiaries, we are able to fill gaps that need to be addressed for the deeper impact we want to create in the community.

Moreover, as we are talking about subsidiaries, our latest addition, Satin Technologies Limited, has begun its operations. And through this venture, we look forward to accelerate change across sectors that are right for technological disruption. We aim to push the boundaries of possibility, enduring our technology-driven solutions to reach other players as well and deliver scalable solutions that create meaningful change.

Now coming on the dynamics of the current environment. I must acknowledge that the unsecured lending space has faced notable disruption during the last 2 quarters with various factors like heat waves, general elections and heavy monsoon leading to increased delinquency rates. In response, the industry is actively reinforcing its approach with enhanced risk management and innovative strategies to navigate these challenges effectively.

SROs have also taken cognizance of the situation, implementing focused measures to ensure responsible financing, stability, and resilience across the sector. MFIN Guardrails and Sa-Dhan's SANKALP Guidelines were introduced in the month of July '24, an essential measure for fostering conducive environment for the industry for the longer run.

It gives us pride to mention that much before the sector-wide initiatives by SROs, the company has been following the good practices like the policy of capping the maximum number of MFI lenders at 4 and limiting the total microfinance indebtedness to INR2 lakhs.

When the SROs implemented the guardrails in July '24, the retrospective analysis showcased that just about 1% of the company's existing clients exceeded the number of lenders by 4, and only 0.04% clients had loan outstanding exceeding INR2 lakhs at the time of disbursement, demonstrating the strength and consistency of our approach to responsible lending over the years. Currently, we are happy to share that our portfolio is well within these guidelines, and we have well deliberated the same in the Slide number 3 of our investor presentation.

Given the challenging environment within the industry, our portfolio has shown resilience driven by strong underwriting and right onboarding processes. In contrast to broader industry trends, Uttar Pradesh and Bihar comprising 42% of our on-book portfolio continue to perform strongly with PAR 90 rates in these states remaining below our national average of 3.53%, their GNPA being 1.98%.

Moreover, our top 4 states, which collectively contribute about 60% of our on-book portfolio, report a PAR 90 of 2.9%, a figure well under the national PAR 90 average. This stability across core regions reflects our proactive approach to client selection, coupled with robust risk management strategies and rigorous onboarding process, even as we navigate the broader challenging impact in the industry.

Our asset quality has experienced a temporary transitory increase in delinquency across a few geographies, including Orissa, Punjab, Rajasthan, Jharkhand and Maharashtra, influenced by various challenges like heat waves, floods, general election and other on-ground external factors. This impacted regular collections and follow-ups in the delinquent buckets. These states comprise approximately 17% of our on-book portfolio with a cumulative collection efficiency of 92.2% for H1 FY '25.

Additionally, our performance in Punjab has outpaced industry standards with collection efficiency holding above 92% levels even with calibrated disbursements. We expect the situation to improve from Q4 FY '25. The company continues to strengthen its collection mechanism with additional cost control measures by deploying dedicated collection resources for separate DPD buckets, driven by the findings of our data analysis and also supported by continuous customer engagement, along with robust underwriting measures.

In response to macro-economic challenges, we have implemented a series of targeted initiatives to fortify our operations and maintain asset quality. Our commitment to responsible lending is reflected in our stringent client filtering processes with a sourcing to disbursement rate of about 37%, achieved by following stringent guidelines, scorecards and prudent underwriting standards and guardrails. We continue to adhere to a one loan per client policy to prevent over-leveraging and ensuring responsible lending.

To manage risk effectively, we have ceased disbursements to new to credit clients in 561 branches, up from 200 in Q1 FY '25 and halted new client acquisitions in 242 branches. This is also enabling us to focus on strengthening our existing client relationships. To enhance collection efficiency, we have split larger branches and regions for more focused oversight, deploying dedicated teams with about 1,100 employees managing specific DPD buckets and rationalized loan officer spans to improve management and accountability.

Additionally, we have strengthened our supervisory structure by assigning 1 territory manager for every 2 branches, which has further bolstered our audit and risk processes. These initiatives collectively enhance our resilience and adaptability, positioning us well to navigate current challenges.

We are pleased to announce that we have received our AUA/KUA license from UIDAI, enabling seamless e-KYC transaction through a fully digital automated verification process. This brings swift paperless results with enhanced accuracy, security and sustainability, advancing our commitment to efficient and user-friendly customer experiences.

Talking about our operational performance during the H1 FY '25. On a consolidated basis, our AUM grew by 16% year-on-year to INR 11,749 crores. On a standalone basis, the AUM stood at INR 10,463 crores, up 18% Y-o-Y. The disbursement stood at INR 4,733 crores on a consolidated basis and INR 4,272 crores on a standalone basis. Our borrower base grew by 8% Y-o-Y to 34.6 lakh, while our branch infrastructure stood at 1,463, up by 10% Y-o-Y as we added 128 branches in 61 districts.

Like I said before, we have observed a temporary increase in delinquency during the reporting quarter on account of several factors, which impacted regular collections and follow-ups in the delinquent buckets. On-book GNPA stood at INR 286 crores, which is 3.5% of the on-book portfolio. The company has sufficient on-book provisions amounting to INR 284 crores as on Q2 FY '25, which is 3.5% of on-book portfolio. Provision required as per RBI regulation is INR

167 crores. We have adequate measures in place and are working to ensure that delinquency trends should stabilize from Q4 FY '25 onwards.

Coming to our financials now. During H1 FY '25, the company's overall revenue grew by 30% Y-o-Y to INR 1,290 crores on a consolidated level. And on a standalone basis, it reached INR 1,183 crores, marking a 30% increase. The pre-provisioning operating profit stood at INR 411 crores, registering a growth of 34% Y-o-Y on a consolidated basis. On standalone, the PPOP stood at INR 398 crores. This growth reflects our focused strategy and operational efficiencies inspite of the difficult dynamics.

For H1 FY '25, the consolidated PAT stood at INR 150 crores with an ROA of 2.8% and ROE of 12.1%, reflecting our sustained operating profitability. As we look ahead, mindful of the current industry landscape and the challenges that have emerged in recent months, we have revised our guidance for FY '25 to reflect a more measured outlook.

We now anticipate an annual AUM growth of approximately 8% to 10% with a projected credit cost of around 4.5% to 5%. Despite these near-term headwinds, we remain confident in our strategies and continue to assess the evolving situation on the ground, ensuring that we remain agile, resilient and prepared for future opportunities.

On the borrowing front, in H1 FY '25, the company has raised INR 3,852 crores at the group level from various lenders. We draw good comfort from our diversified domestic and international lender base, which ensures continued access to funds. Further, the company has a healthy CRAR of 28.8% and adequate liquidity of around INR 1,590 crores and has undrawn sanction in hand of more than INR 1,539 crores as on 30th September '24. Our consolidated book value stands at INR 230 per share.

Coming to the other aspects, I would like to highlight some of the foundational strengths that position us well for sustained growth and resilience. At the heart of our success is a stable, highly skilled and dedicated management team. With an average tenure of over 8 years, our core team brings a wealth of diversified industry knowledge and an enduring commitment to our mission. This depth of experience and continuity is a powerful asset as we navigate an evolving financial landscape and steer the company forward towards new horizons.

We are also proud to have further strengthened our governance with the addition of 3 distinguished independent directors to our Board in the recent time. These seasoned professionals have brought fresh perspectives, diverse expertise and strategic insight that will enhance our decision-making processes and deepen our focus on responsible, sustainable growth. Their contributions will be instrumental as we continue to adapt, innovate and lead with integrity.

Coming to the laurels our company has won, I'm immensely proud of the technological progress our company holds and it brings me great joy to see our efforts recognized through multiple prestigious accolades.

We were honoured with the Best Solution in Cash Management India Award at the 2024, The Asset AAA Awards, and received the Best Technology for Operational Efficiency Microfinance Award at its 5th Annual BFSI Excellence Award 2024 organized by Quantic. These achievements reflect our commitment to innovation and operational excellence. As we move forward with our core strength, clear vision, dedicated team and strong foundation, we are well positioned to navigate challenges and create lasting value for all our stakeholders.

Now, let me run through the financial and operational highlights of the company, starting with the consolidated highlights. We have a customer base of 34.6 lakhs as on 30th September '24, with presence spanning in 1,463 branches across 473 districts in 29 states and new territories of India. Our top 4 states contribute to 55% of total AUM as at Q2 FY '25, and the states are UP, Bihar, Assam and West Bengal. The total revenue for the quarter stood at INR 1,292 crores, up by 30% Y-o-Y.

Standalone highlights. Our average ticket size of MFI lending for the H1 '25 stood at INR 52,000. There is a slight increase since we are focusing on lending to our existing clients. We have a well-diversified customer base of approximately 33.9 lakh clients with 76% rural exposure. Pan-India business have 1,361 branches. PAT for H1 FY '25 stood at INR 144 crores, ROA of 2.8% and ROE of 10.6%.

The shareholders' equity stood at INR 2,798 crores as on 30th September '24. GNPA as on September '24 stood at 3.5%. The overall provision coverage ratio increased to 99% versus 79% in September '23. Total borrowings stood at INR 7,653 crores as on 30th September '24. Debt-to-equity ratio as on 30th September '24 stood at 2.7x. As on 30th September '24, 96.8% of our districts have less than 1% of AUM.

And update on subsidiaries. Through the collective efforts of our subsidiaries, we aim to extend the spectrum of financial services to our clients. By harnessing the strength of our microfinance outreach, we endeavour to extend affordable housing and retail MSME loans specifically to clients who have completed more than 2 loan cycles with the company and have higher credit requirements.

Satin Housing Finance Limited has now reached an AUM of INR 850 crores, which grew 50% year-on-year, having presence across 19 states with 8,228 customers. SHFL has a 100% retail book. The quality of the portfolio remains intact with GNPA of 1.4% as on September '24. The company has 30 active lenders, including NHB Refinance, CRAR of 55.68% and gearing of 2.3x. PAT for H1 '25 stood at INR 1.5 crores. Credit rating A- stable from ICRA.

Satin Finserv Limited, the company's MSME lending arm has reached an AUM of INR 435 crores. We are running down the business correspondent book and focusing on building retail MSME book going forward. MSME on-book portfolio grew by 48%, CRAR of 41.2% and gearing of 1.6x. PAT for H1 '25 stood at INR 3.4 crores. 18 active lenders, including banks, impact funds, etcetera. Credit rating of A- stable from ICRA.

In closing, as we forge ahead on our journey of growth and innovation, we are confident in our ability to achieve greater profitability while ensuring operational efficiency. Our strategic vision and dedication to excellence position us well for a prosperous future.

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

Moderator: The first question is from the line of Rishikesh from RoboCapital.

Rishikesh: My question is with respect to the opex. Our cost to income looks elevated for Q2. Can you please touch upon this? And how do we see cost to income going ahead?

HP Singh: See, it's a marginal increase which has happened, technically from a 43%, which was Q2 FY '24, to about 46%. See, this is in respect to the new environment, the way things are processed. So we've added, as I said in my earnings call speech, that we've added more dedicated employees in the different DPD buckets to do more collections effectively. And that is probably one of the biggest reasons since we have had this kind of an opex increase in that. So related to that, then you get also other administration increases in terms of the incentive piece across over there. But it will remain stable, I think, going ahead in the same range as such, about 45% to 46%.

Rishikesh: And what credit costs do we foresee for H2 specifically? And steady state, what is your view for FY '26?

HP Singh: See, for us, as we have given the guidance that we'll be closer to about 4.5% to 5%, that's what the range is. But to be very honest, as we put in, as I specifically mentioned in terms of our guardrails for lending, new-to-credit clients, new-to-Satin credit clients, different branches across over there, we feel that we'll be able to manage probably within these range or maybe lesser than that. That's what our whole task is and the management team is working towards it.

As I said also earlier that by Q4 FY '25, I think we will probably be stabilizing the whole process by putting in all these efforts of ours and looking at various this thing. I think we've given a detailed kind of a guideline in our investor presentation of one page that what all measures we've taken. Our sense is that it has now started to show some results for us.

And I think if you look at the credit cost as compared to maybe the other credit costs which are coming in, I think they are fairly, fairly much better in terms of our credit cost, what we have done. So this is what our guidance is, and we hope to probably be able to do maybe better than that also in the near future.

Rishikesh: Yes, just want to touch upon the secured book part. What is our target for our secured book growth? What percentage contribution do we foresee going ahead?

HP Singh: So for us, our secured book is closer to about 12% of our total AUM consolidated. We want to increase, since we said about 8% to 10% overall growth, but we are envisaging a growth in our secured book, both on the housing and retail MSME, of about 40% to 50% year-on-year. That is where we do it. On our current estimate basis, in the next 3 years, I think for us, our secured book would probably be 25% to 30% of the total overall consolidated AUM which we will have.

Moderator: Next question is from the line of Aman Mehta from Dolat Capital.

Aman Mehta: I have a couple of questions. First is related to MFI. Has collection in MFI business improved in October month? Like what is the collection efficiency? And industry-wide, what are your thoughts and views, if you can share that? Secondly, it is on what is the forward flow to NPA in this quarter? And what sort of trend do you anticipate in forward flow slippages in the next 2 quarters? And what is the share of borrowers with exposure and what is the trend you're observing in ground level in the top 4 states?

HP Singh: So we've given you the status of our top 4 states this thing, where our overall PAR 90, the GNPA is closer to about 2.9%, if I'm correct. Yes, it's about 2.9%, which is below the national average of 3.5%, which we've reported. So you can get the answer from there. That is point number one.

Point number two, you've asked me that when do we technically see this. As I said, Q4 is probably the quarter where we actually look at it from our standpoint that how does it move forward. Collection in October is technically flattish or the same as what it was in the previous this thing. But you'll have to bear it in mind that October was a month where we have Diwali, Chhath Puja and everything, which is probably consolidated in the FS also, we got Dusshera, Diwali and everything.

It does have a spike. Technically, if you look at it from that angle, it's also not probably a month where we can actually see it. But once we've entered November, I can probably give you some headwinds into that. We are far better off in November. Since we do not have all these festivals now. They are all over. The monsoon is over, the heat wave is over.

So everything has been put behind. It's a stable this thing. Initial 8 days, I can probably just give you a fact of the matter is that we are far, far better in this month as compared to the previous 6 months. So that is probably one indication which probably can give you some kind of a comfort. Slippage in Q2 was about INR 121 crores in terms of what you said, in terms of the flows, and this is probably going to be maybe range bound as we go forward in terms of our Q3 and Q4.

Aman Mehta: Okay, sir. And what is your overall growth guidance? Is there any change you are seeing?

Aditi Singh: So, we have said that it has tapered down to 8% to 10% instead of the 25% we had earlier projected for ourselves.

Moderator: Next question is from the line of Rajendra Passi, who is an individual investor.

Rajendra Passi: So sir, as you have mentioned that this month we have improved somewhat from the past 6 months. So can we say that the trend might continue in Q3 and Q4 from the collections perspective?

HP Singh: No. That's what I said. I think what we are seeing in the initial 8 days, 10 days of November, we are much better than the last 6 months. So if this stabilization and the trend continues, I think we will probably be much better off in terms of how we probably do it. But there's an overlap of the last 6 months, which will probably have a bearing on the Q3. That's the reason why we were very, very clear in our thought process and we said that Q4 would be stable, at least for us. I cannot talk about the entire industry or anybody else. I can talk about myself.

But what we are trying to look at is that I think once all these hiccups and things on the ground plus the guardrails, which we've actually enforced since February '24, and we are taking all those measures of NTC as well as new-to-Satin clients and everything else, the whole cumulative effect of all this is going to probably have an effect from now on to see whether we will have an improvement in that. And I don't know whether the first 8 days or 10 days are indicative enough to probably do that, but for us we feel that maybe some measures of that indication has already started to come in for us from these first 8 days of November.

Moderator: Next question is from the line of Pranav Gupta from Aionios Alpha Investment Advisors.

Pranav Gupta: Just a sort of follow-on question from a few of the previous participants. I wanted to understand, sir, how are we seeing the collections, not overall collection efficiency, but maybe collections on the X bucket. That will help us get a sense of how the forward flows are moving and whether we can sort of hold on to the Q4 normalization trajectory that we're looking at. So some sense on the X bucket collections would be helpful, sir.

HP Singh: So let me give you an indication again of how 1 to 30, 31 to 60, and 61 to 90. Let me be a little bit more explicit in giving you these kind of numbers. 1 to 30, past 6 months, I think, for us, when we were looking at it, in the last month, we've had a slight increase in the 1 to 30 collection buckets also, which we are seeing again increase, as I said, in the first 8 days of November.

For example, if my 1 to 30, and this is not a figure which probably is there, but if we are seeing an X collection efficiency, we've had practically a 20% increase in the collection efficiency into 1 to 30 bucket. And that's a very, very positive sign for us.

Regarding the 31 to 90 DPD buckets, we are seeing, again, a 20% increase in 31 to 90 buckets also. What we've also done is, I think we've also put in that 1,100 dedicated employees, which we talked about in the earnings call as well as in the investor presentation. People have been specifically been put in these DPD buckets. We earlier had DPD buckets of 90-plus onwards, where a separate team was working on it.

We've created this team now of 1 to 90, 1,100 dedicated people who are continuously visiting and motivating these guys, the borrowers who have not paid in this 1 to 90 are there in that bucket, to repay. And we've had very good positive signs, as I said, in November, the first 8 months. And we feel that, that is probably -- this is how if it holds on, we will have a much better collection efficiency of the DPD buckets from 1 to 90 on the overall basis.

Pranav Gupta: Understood, sir. Just one more follow-up on that, sir. Are we seeing pullbacks not just obviously stabilization within the buckets, but also pullbacks increase when we say compared to the last 2, 3 months? Is that also a thing that we are seeing? Or is it just that customers are continuing to pay and stay in the same bucket that they are?

HP Singh: There has been increase in knockouts also. So that's what I said. Once all these pitfalls are taken off, I think, microfinance is a very specific kind of asset class where I think rains will have a impact on your collection efficiencies, heat wave will have it, festivals will have it, basically. Because it's more physical collection which is probably under process. So there's been an increase in our knockouts also in the first 8 to 10 days of our this thing.

And why we say it is important to see the November first 10 days as compared to this thing, because 31st was Diwali again and 30th was Choti Diwali. We had Dusshera about 10 days before that. So the festivals do have an effect in terms of our this thing. 2nd October was again a national holiday. Chhath started from right after Diwali and then Bhai Dooj. So inspite of the fact that we are actually in the throes of the Chhath process right now, we are still talking of a very positive sign in terms of collection efficiency, both overall as well as in terms of our DPD buckets also.

Pranav Gupta: Right, right. So just one last question on the asset quality bit. When we look at states like Orissa, Rajasthan, these are the states that have been mentioned by many other players also where they are seeing slightly elevated GNPAs and collection efficiencies being down. In your opinion, is this solely because of the over-leveraging bit? Or are there other state-specific factors for some of these states that are at play?

HP Singh: See, I will probably hold myself and not exactly saying that it's been over-leveraging, but I think it is a combination of all these processes of I think the festivals, and maybe at some places, maybe some kind of over-leveraging in terms of this thing. But there's also -- technically, Orissa and these places being coastal areas, I think, the typhoon -- the cyclone just came in, in the end of October, so that has a bearing. Bihar has been grappling with floods, even though I think people have been talking about nuances in UP and Bihar, but I think our collection efficiency as well as our PAR numbers are far, far better than probably people have been talking about.

So my own sense is, I think once all this probably settles down and I think we are able to put in our kind of dedicated teams as well as our guardrails and everything, it will have a cumulative effect overall for us in the asset quality. I think that is probably something which we would like to probably state that by putting in all these, I think we will have some more better things to really look on in the next 6 months or so.

Pranav Gupta: Right. And sir, just one last question on the growth rate. Obviously, keeping these next 2 quarters aside where we sort of try and move towards more of a normalization. But when we look at FY '26, do you believe that with the new MFIN guardrails in place, we will start seeing an environment where there is more focus on customer acquisition, whether new to credit or new to each lender, and also sort of a higher share of customers that are exclusive to each lender. Is that an environment that we envisage going forward?

HP Singh: See, we're still assessing the overall perspective. But one thing which I can probably say for our company, I think we were probably the first ones to enforce these guardrails even before the SRO actually brought in. So if I tell you, our NTC actually started from February '24 onwards, which we've increased now from 200 to 561 branches, as I said. For us, I gave you the percentage figure, 1% in terms of 4 lenders and above. We've got 1% portfolio of 0.04%.

So all these factors, the blueprints for us are very clear. For us, asset quality is far more important rather than the growth, and that is the reason why we've beaten down our growth, but we are focusing more on our collection efficiency and our asset quality. And if we've been able to hold on as compared to maybe the overall environment at a GNPA of 3.5%, I think we probably will be able to hold on much better than from as we progress further from here.

Moderator: Next question is from the line of Anant Mundra from Mytemple Capital.

Anant Mundra: Sir, my first question was on our write-off policy. Just wanted to understand what is our write-off policy? And what is the current provision that we have on Stage 1 and Stage 2 assets? That was my first question. The second question was around -- I mean, there have been some reports that there's a lot of voter ID duplicity that happens. So just wanted to understand how big is this an issue industry-wide or how big this is an issue for us?

And also wanted to understand why is that the industry relies on voter ID, which is easy to duplicate, rather than something like an Aadhaar, which is difficult to duplicate. And the third question was around like any permanent changes that we are planning to make around our business model or processes or underwriting policies based on the learning experience from this cycle?

Jugal Kataria: So, on write-offs, we generally write off the cases which are beyond 360 days DPD. But in the stress states where we have defined it how we treat the stress states, there we write it off after 180 days. So this is broadly on the write-off strategy that we do. Over and above wherever we feel that there is a problem, we do that, but these 2 things we surely write off.

HP Singh: Now in the terms of your voter ID this thing, so we have gone far ahead of that. So we don't do -- we do 2, what do you call this, KYCs. Aadhaar is our primary source of KYC and voter I-card is this thing. Aadhaar for us is beyond any kind of a manipulation or a duplication, because we do Aadhaar with IRIS verification.

Now people are doing even Aadhaar with biometric or doing voter I-card. We are probably the only institution in the entire MFI sector, and this is where I say with a disclaimer, we are the only company in the entire MFI sector which does Aadhaar with iris verification, which has absolutely 0 chances of any duplication or kind of a fake this thing.

On the third point of yours, how do we make our changes in underwriting, our processes and everything. That is something which we keep on doing day in and day out. For us, it's not something we will do it once we see the environment going bad or anything. That's the reason why we said all these guardrails which have come in force after about 8 to 9 months of they being enforced sometime in August or September, we've done it in February basically.

So for us, it's a constant evolution process, constant process of evolving ourselves and making changes in our processes as well as everything. And all these actually lead to what we said. So this whole thought or the way we do it -- and by the way, Aadhaar and iris verification, we've been doing it for the last 2 years now. It's not even that it has started now. We've been doing this for the last 2 years. So this is how we actually track ourselves in terms of the changes and the processes which we do for our institution.

Anant Mundra: Got it. And sir, first question, like you missed out on the part, how much is our provision coverage on Stage 1 and Stage 2 assets currently?

Jugal Kataria: So, our Stage 1 PD is close to about 43%, and we make a 62% provision on that. And similarly, on Stage 2, we have between 31 to 60 of about 68% and 99% on 61 to 90. So on that, we make a 62% provision.

Moderator: Next question is from the line of Shreyas Pimple from JM Financial.

Shreyas Pimple: My question was on Page number 3, where you have given Satin plus 4 percentage clients at the time of disbursement. I wanted to understand, can you provide the number at the end of Q2, how many clients have Satin plus 4 exposure?

HP Singh: See, let me give you this answer. I think this is an answer which probably doesn't have any merit. When we disbursed, what happens post that, I have no bearing on that, to be very honest. Now as we've done at the time of disbursement, Satin plus 1, I think you can take hard from that, that whatever increase will be, again, that will be very miniscule. Now if I keep on tracking that, I can't do anything about it, because our customer is live and it is actually working on it. And I can't do anything about it. And that's point number one.

Point number two, I think if you look at the other factor of ours that anything which is over INR 2 lakhs, we've done 0.04% at the time of disbursement. Now if something happens post that by any other player in the entire industry, we probably do not have any bearing on that. So even if I do a scrub, even if I try and look at it, what can I do about it? I can't do anything about it. I can't go to a customer and say, okay, fine, repay me just because you've got another loan. I think that will probably put the field in a far bigger jeopardy than anything else, right?

Shreyas Pimple: Understood, sir. But the reason why I asked the question was that many players have been reporting this number. So just for the comparability.

HP Singh: That's what I said. It's very important that when we are actually giving out a loan to my client, that time it is important for me to seriously look at it. After that, when the guy is already on board, I can't put him off the train now even if I have the numbers also. So I don't know whether that has relevance or not, but that's how we look at it.

Shreyas Pimple: Fine, fine. The second question was on the operating expenses. The operating expenses for the quarter have been elevated. Could you bifurcate on how much of these operating expenses were because of branch additions and how much of the percentage would be strengthening of collection team?

HP Singh: See, branch expansion, we've increased about 128 branches. That's part of our normal process. And that would have been -- that was very miniscule. I think the basic, basic factor where we've been able to increase our opex is because of, one, lowering our case load for our loan officer. That is one. We've taken additional loan officers, because since it is a stressed environment, we want to have that the loan officer will have the freedom to actually look at the clients and get collection from them.

And the second is about 1,100 employees putting in separate DPD buckets, which will give us probably a much better collection efficiency again in process. So I think that's probably 90% of the reason why we have that little bit elevated cost for ourselves. And along with that will come incentives and everything. So it's not just the regular expense, the infrastructure expense will also get added on, plus the incentives, etcetera, will also get added on to the whole space of the resources which we have.

Moderator: Next question is from the line of Raj Jha from Nuvama Wealth.

Raj Jha: So sir, just wanted to know, in first half, our credit growth is about 18%, and we have been guiding about 8% to 10% for the full year. So what the disbursement growth we are targeting for second half and the next year?

HP Singh: See, next year, I do not have this thing. We will look at how the collection efficiencies and the GNPAs pan out. I think it will all be dependent on our credit cost. Our own sense is, as we said, I think that Q4 onwards is far more this thing. I think we'll take a relook at it.

We are also looking at complete environmental change in our complete systems as well as everything in terms of how we evolve, look at our center meetings, our JLG model, our models in terms of products and everything. I think we are making -- we are preparing blueprints on that. And once we have that ready, I think we are trying to look at how we are able to do it. So I think pretty premature for us to give you a guidance for the next year.

Raj Jha: If you can put some light on the second half, how do we see the disbursement growth?

HP Singh: I think 8%, we are flat right now. Basically, I think that whole growth of about 8% to 10% will come in the third and fourth quarter, basically.

Raj Jha: Sir, our collection efficiency in Bihar and I think most of the states, 4, 5 states are, I think, better than the industry. Despite that, we have been guiding about 4.5% to 5% kind of credit cost. Against the first half, we have 3.9%. So what's the kind of return ratio we are looking?

HP Singh: ROA, I think -- we've not given any guidance, but I think it will probably be around 2% to 3% or so or within that range. And I think ROE will also be closer to about 8% to 10%. That is what our thought process is. One thing which I would like to point out, and I think we're working as a team very hard in terms of the guidance which we've given and our only work towards all this is that we want to beat our guidance also for credit cost. That is what our whole work is now revolved around in the next 6 months, so that we can send out far more positive message to all our stakeholders from here.

Raj Jha: Sir, one is the qualitative question. So how the situation is on ground in terms of collection efficiency? Is there any sign of improvement? Or if not, then when we can expect maybe by the end of the year or when do we expect that there would be some improvement in the collection efficiency.

HP Singh: I've been far more candid and blunt in telling you about the first 9 days of November. And I said that we are seeing very positive signs in terms of our collection efficiency as this thing. I think if this trend post all these festivals, monsoon and everything, if that holds on, I think we'll have far more better numbers coming in. So first 8 days have been very, very good for us in terms of our collection efficiency as well as our numbers in terms of knockout, DPD bucket collection and everything.

Raj Jha: So if collection efficiency is improving, then credit growth guidance and the credit cost guidance, both will change for second half?

HP Singh: Sir, we'll try to do better. That is always our endeavour.

Raj Jha: Sir, lastly, on the number of people we have deployed for the collection. Out of 1,100 employees we have, how many of them have been deployed for the collections?

HP Singh: All 1,100, sir.

Raj Jha: No, size of the collection team, just wanted to get a sense.

HP Singh: So this is the collection team which we have deployed separately. 1,100 is only for collection in these DPD buckets.

Moderator: Next question is from the line of Amit Agarwal, an independent investor.

Amit Agarwal: Sir, I just wanted to understand from you like the big picture, like how the future of Satin is going to shape up? Because the kind of guardrails and whatever is happening in the industry, it appears that the bigger banks, who have cost advantage and the reach advantage, they will eventually gain market share because a borrower will not have more than 3 lenders or 4 lenders. So how are we going to ensure our right to win in this environment? And like is it going to be like we will pursue some kind of small banking license or banking license? How are we going to approach this crisis?

HP Singh: So Amit, let me give you my perspective. Definitely, we are in a competing field where we have large banks who have the ability and the thing to probably do microfinance in a much larger space than what we can do. What I can probably say with the last 2 quarters being there, the microfinance landscape has changed completely.

It is no longer a space which is only left with people who have too much money in their pocket that they can only lend and probably do it. It is more of a collection game now, which has evolved. It is more of a technology game, which will enable and support the microfinance objective. It is more of a process and human resources game, which is there in terms of this. This is more related to probably the entire environment we looked in a very different kind of a scenario, whether it is JLG you want to do with shorter center meetings, you want to do with larger center meetings, you want to do certain areas, you don't want to do certain areas.

It's not just about talking about money in your bank account and you can actually do microfinance. It's much different from what it was in the earlier days. So over there, I think what I can say with certainty, I think as an institution, Satin is well-poised always and will always be ahead of the curve for everything which has been involving in this kind of a space. And that is what exactly we are doing right now. And that is the reason why I can say with surety that the guardrails which came in 9 months later than, and this is the statement which I have been making, we did it.

Secondly, I think which people tend to overlook and see it as an oversight. What is Satin? Satin is not only a microfinance institution. It is a combination of secured lending of MSME as well as housing finance. And we have forayed into technological this thing with our new subsidiary which is coming in. And for us, that is probably one of the key areas that we've been very strong in our technology efforts, and that is how we are going to take that positivity taking forward across. So this is not just microfinance which we talk about, it's a much larger picture and a much larger perspective which we are talking about for Satin in the longer run as such.

Amit Agarwal: Yes, that I understand. So basically, for Satin Technologies, like what is the size of opportunity that you are looking at? I believe that we will be providing solutions to mostly the lending space and financial space. So what do you think like what is the size of opportunity there for that company, Satin Technologies?

HP Singh: See, it's very huge. And if you look at the BFSI space for any large technology company, that's the biggest space everybody has. We have been implementing and doing this practical solution for the last 8 to 9 years, and we've got a solid team. We can actually; the software for LMS and LOS, which was for microfinance, for MSME, for housing finance, it has all been done internally.

And if we can actually make for 4 different asset classes for us, I think it can speak something of the advantage which we hold. And that is the reason why, for us, we floated a subsidiary, which will take advantage of this space in the BFSI sector to a large extent and maybe in various other related fields going ahead. So that is what exactly it is all about.

Amit Agarwal: How many people we have in Satin Technologies, sir?

HP Singh: Satin Technologies just started about three months back. It's about the same. But in the parent company, we have close to about 100 people in the technology team, which is there. And that is something which we are going to slowly replicate in the newer company. It's just been 2 months old. But just to tell you, I think we've got a few clients now in the technology company right from the inception. And that speaks about how we've been able to approach looking at our software progress going forward then.

Amit Agarwal: That's great. Sir, one last question on your Satin Housing, sir. I've been actually very bullish on housing. So I'm very excited about our venture in Satin Housing. So just wanted to understand like how our competitive position stands in Satin Housing? Like what is our cost of fund, because a lot of players have very low cost of fund and secured lending is a very competitive space. So how are we going to scale this with whatever we have?

HP Singh: So Amit, for us, housing is an opportunity where we have a complete USP. There is still not an outreach on the rural space for the affordable housing segment by anyone right now. We are probably the only MFI which has got a separate subsidiary which will have an outreach piggybacking upon our parent company in terms of this thing. We are present in 479 districts. We are present in 29 states. We are present in about 100,000 villages. For me, that is the opportunity of housing finance.

And housing finance, not talking of the cost of funds, cost of funds is coming slowly down. We're just about 6, 7 years old in the housing finance company. But the opportunity in terms of housing finance, we've got the complete monopoly in terms of or USP in terms of our rural housing, which I think probably nobody else. Just because of our outreach in MFI, I think we will be able to do it. And for such a young company, we've been able to get an ICRA A- rating for housing finance. I think that can speak about it, a CRAR of about 50%, which is there. And our marginal cost of fund right now is about 10.25% in this thing, which will slowly also come down as we grow bigger and bigger across over there.

Moderator: The next question from the line of Vishwanath Singh, an Individual Investor.

Vishwanath Singh: Yes. So just to start off with, I had a question regarding Satin Housing Finance. So when do we expect the operational leverage to kick in housing finance, I mean, with respect to the margins compared to the industry? Like we got the growth rate, as you have mentioned, would be around 50% year-on-year, which we are targeting. But I am also interested in knowing the margins. I mean how would it shape up in future?

HP Singh: Yes. So as we are growing about, I said 40% to 50% year-on-year in this. If I give you our lead indicators in terms of our thing that we are closer to about INR 850 crores. In terms of our margins, I think our yield right now is close to about 15.5% or so. And as we progress further by adding on more clients in the rural areas, I think this will probably inch up further.

So for us, having a base where a yield in a housing finance company technically is above 15.5% or 16%, I think that can probably give you an indication of how we move forward across over there. 40% to 50% is what we are looking at year-on-year from here on now.

Vishwanath Singh: Yes. Like I mean is there any sort of time line which we can target, because if you see the profit after tax, right, it is still low as compared to the peers, right? So I just had a query regarding that.

HP Singh: Yes. See, right now, the cost of funds is still on an elevated level, because we have still not crossed the first threshold of that INR 1,000 crores. I think the moment we do that, we'll have some this thing. We just got our rating upgrade about a couple of months back. I think that is there. But I think moving forward, in the next 3 to 5 years, I think we'll probably be one of the largest in the rural space that I can say for sure in the next 3 to 5 years in terms of housing financing.

Vishwanath Singh: This means you are saying like once we reach the INR 1,000 crores milestone, that's when we can expect some move for the next year?

HP Singh: That's the first benchmark which everybody tries to look at, the first crossage of that INR 1,000 crore mark. We'll probably be doing that in FY '25.

Vishwanath Singh: And sir, do we expect more provisioning in the upcoming quarters? Or are we sufficiently covered for the rest of the year? As I see, I mean, we have definitely provisioned, right, for this?

Jugal Kataria: So we have given overall credit cost guidance. So we'll remain within that range and try to get better within that. We have talked about 4.5%, 5% credit cost. So we'll be trying to be better than that, but that is the guidance for the time being.

Vishwanath Singh: Yes. And I also wanted to understand like RBI has some guidelines regarding the loan which we can provide to the customers, right, if he has one or more loans. So I just wanted to understand like Satin is also trying to leverage its existing customers for the housing finance and MSME, right? So will this RBI rule have any bearing on that particular initiative, or we can definitely tap the existing customers without borrowing a housing loan.

HP Singh: So our policy is very clear. One loan per customer. If there is a loan in housing finance company, there will not be any other loan from either MSME or microfinance. So if we have a loan in microfinance, there will not be any other loan to that same customer from MSME and the thing. And this is something which we follow very diligently right from the start.

Moderator: Next question is from the line of Ashlesh Sonje from Kotak Securities.

Ashlesh Sonje: A few questions from my side. Firstly, sir, just regarding the entire asset quality situation in the MFI industry today, what is the kind of discussion that is currently ongoing, let's say, at the SRO level and at the RBI level? I understand that the guardrails have been largely implemented by everyone. But from both a near-term as well as a medium- to longer-term perspective, what is the kind of discussion that is currently ongoing?

HP Singh: See, I'll be very honest. We normally are not very, very this thing. For us, our guardrails were implemented much before the SRO brought in. I think we look at our institution in a different fashion from what comes in. And I think the discussions which are going on between the other players and everybody and MFIN and Sa-Dhan, since I used to be in Sa-Dhan's earlier, is that I think the guardrails have to be implemented by everyone.

And I think what you said is absolutely right. The guardrails have been implemented by everybody else, even the MFIs as well as I think, by the banks and everyone. So this is where things stand. And I think the discussion is towards that we are able to look at maybe lesser of over-leveraging with our customers. And I think that's probably the baseline effect and probably should be followed in letter and spirit by each and everyone. I think that is what the whole idea is all about.

Ashlesh Sonje: Understood, sir. Sir, so far, the regulator does not seem to have reacted to the situation. What is the kind of discussion that you and other players could be having with the regulator at this point in time?

HP Singh: I think the regulator -- this is probably not an answer which I can give you that what discussions we've had and everybody else has had. I think the guardrails were implemented by looking at the over-leveraging session. And I think probably I will not be able to give you an answer in terms of how we look at this thing. I think being a regulator, I think they have all the right and all the way to look at us and everybody else. I think that is a constant conversation which always goes on with the regulators from what I know. We have regular inspections, regular conversations, everything. And I think it's a normal process which happens.

Ashlesh Sonje: Sure, sir. And just lastly, can you just repeat the stage-wise provision coverage which you mentioned earlier in the call? I missed those numbers.

Jugal Kataria: On Stage 1, our PD is about 43%. On Stage 2, between 31 to 60, it's about 68%; and 61 to 90, it is about 99%. And on all the stages, we have an LGD of about 62%.

Ashlesh Sonje: So your ECL will be roughly a product of the LGD and the PD in that case?

Jugal Kataria: Yes. That's right.

Moderator: Ladies and gentlemen, we will take this as the last question for the day. I would now like to hand the conference over to the management for the closing comments.

Aditi Singh: I thank each one of you for taking out time and joining our call. And thank you for all the questions to put things in perspective. As mentioned in the opening remarks, we stand on a firm ground with all the process, technology and the responsible lending practices in place. We have been very transparent in sharing all the updates with you.

And while you can refer to our investment collaterals, should you want to discuss anything in detail offline, you can get in touch with me. My name is Aditi Singh. Or you can also get in touch with my colleague, Ms. Shweta Bansal, from the Investor Relations team for any further discussions, and our details are there on our website to follow. Thank you very much for taking time on a Friday evening. I'll say it once again, and thank you. Have a great weekend.

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