# Spandana SphoortyFin



**Operator:** Ladies and gentlemen, good day, and welcome to Spandana Sphoorty Financial Limited Q2 and H1 FY27 earnings conference call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not a guarantee of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal the 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. Shalabh Saxena, MD and CEO, Spandana Sphoorty Financial Limited, for his opening remarks. Thank you, and over to you, sir.

**Shalabh Saxena – MD & CEO:** Greetings from Spandana. Thank you all for joining the Q2 FY27 performance update.

This was a good quarter for the third time in a row after a series of turbulent periods. The AUM managed to cross {? 9,500 ?} crores for the first time in recent quarters, showing 10% growth over the previous quarter. We managed to add about 1.5 lakh new subscribers or consumers, which again showed a 10% increase over the previous quarter. The share of new-to-Spandana or new-to-credit customers was roughly 65% during the last quarter, showing 4% growth over the previous quarter.

Monthly opex was around the same level of 50-odd crores. The yield improved to 24.9%. Marginal cost of borrowing was 10.6%. The borrowing mix had about a 57% share from banks. We managed to raise 1,427 crores of debt. Overall GNPA was 2.54%. Net GNPA was 1.5%, with a PAT of {? 54 ?} crores.

We managed to garner 995 crores of funds under the CGS scheme, all of which has been utilized as I speak to you. The non-CGS borrowing was at 10.8. I said 10.6; that included the CGS.

A couple of new initiatives: the new LMS that I spoke of in the last quarter has been piloted, and we hope to complete the entire migration of our branches over the next couple of months.

The CFL merger, which has been initiated, is progressing. We are awaiting the regulator's approval, which should happen over the next 3-4 months.

We are strengthening our leadership team with a leaner structure in certain geographies to begin with. This is going to be a new structure, which is generally not prevalent in the industry, wherein we are trying to remove too many layers but, at the same time, have some senior people at the top so that supervision and manageability are much better than what they generally are on the ground.

We managed to raise 194 crores through the second tranche of partly paid shares. Thereby, 97% of the subscribers who participated in the first tranche participated in the second tranche as well.

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All in all, as I said, we are moving in the right direction, and hopefully we should continue to remain steady. I am sure there will be a lot of doubts in people's minds, or articles floating around, about El Niño. Yes, we have identified, as reported in the press, Karnataka and Maharashtra as the two states wherein one could experience some stress. Fortunately, our book is about 600 crores in these two states put together, of which about 96% of the portfolio is in current status and 3% is in GNPA. What we have done is, in the state of Maharashtra, we have bifurcated the branches into various risk categories, and we realize that out of the 127-odd branches that we have in Maharashtra, 18 branches are so-called critical branches, having special focus.

We have worked out certain strategies between policy and risk. What we are looking at is that, in some of these stressed or difficult branches, we are, at this point in time, staying away from onboarding new-to-credit customers, making the norms for new-to-Spandana customers a little more stringent, and ensuring that the existing customers have repaid on time for a repeat loan.

With that, let me hand it over to Ashish Damani, our CFO, for further financial details. Thank you.

**Ashish Damani – CFO:** Greetings from Spandana. Good evening to everyone, and thanks for joining the call.

I am sure you had some chance to go through the presentation that we have put up on the exchanges.

I would like to highlight the first page of the presentation. We have made a lot of efforts over the last 2 years, focused on, so to say, four pillars to see improvement in the financial performance. I will cover them one by one.

Portfolio quality: we have strengthened our underwriting principles, and we have strengthened our customer onboarding process. Resultantly, today, if we see the ex-bucket collection efficiency, which at one point in time was as low as 96.2 over the last 2 years, today it is at 99.6%.

The delinquent bucket between 31 and 90 has also seen a huge improvement. It is at 0.4% compared to 9.8% at one point in time. Accordingly, GNPA has also seen a reduction to 2.6% from the peak of {? 18.7% ?}.

The other aspect on which we focused was improving productivity. We have been increasing our customer acquisition. Quarter after quarter, we were at 1.13 two quarters back, last quarter we did about 1.35, and this quarter, the second quarter of this financial year, we have done 1.5 lakh borrower acquisitions. We have been strengthening this and, resultantly, what we see is that borrowers per branch have improved by 8%. Borrowers per loan officer have seen a 15% increase. We are now at 211 borrowers per loan officer. Average MFI outstanding, since we have started giving loans in line with the market in terms of ticket sizes, is now at 45,000 compared to 22,000 in the past.

One other area of focus was to reinforce confidence on the supply side. What we have done is, as Shalabh just mentioned, we have completed our partly paid rights issue. Four hundred crores was infused into the company, and resultantly, the debt raised over a period was 7,485 crores. The important aspect is that the cost of borrowings is now at 10.6%, whereas at one point, in Q3 of the

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last financial year, it was at 13.2%. We have seen a good amount of improvement.

All this could not have been done without focusing on people. We have strengthened our leadership team, and we have restructured the team on the ground and in the field to improve both accountability and execution.

Net-net, these actions are now reflected in the company's financial performance. Yield has improved, sequential expansion in the NIM is seen, and reduction in the opex-to-AUM ratio is also visible.

Let me cover some of the highlights. During the quarter, the company disbursed 1,481 crores, of which 54% was to new customers. We have been focusing on reactivating dropout borrowers. About 11% of disbursements have gone to such borrowers whom we have reactivated and brought back into our fold, and the balance 35% has gone to existing customers who have met all the guardrail principles.

Our AUM stood at 9,764 crores, which was a healthy 10% growth quarter-on-quarter. The portfolio that we have originated under the new guardrails of the strengthened underwriting framework is now 96% of the microfinance book.

In terms of our ex-bucket collection efficiency, we continue to hold it steady at 99.6%. Our AUM between 31 and 90, as I explained earlier, if we have to look at it on a consolidated basis, is at 0.55% compared to 0.73% at the end of June. GNPA has come down to 2.5% against 3.6%. NNPA has reduced to 0.5% against 0.68%.

We have maintained very healthy liquidity on the balance sheet. During the quarter, we raised 1,622 crores, and this included the CGS, as Shalabh explained, of 995 crores. We are maintaining a very strong liquidity position, with closing liquidity of 1,379 crores as of September 30.

Financial performance highlights: the portfolio originated in FY23 now contributes 96%. Sustained portfolio quality, along with the AUM mix, has driven the improvement in the yield. We are at 24.9%, up from 24.6% compared to Q1. Our marginal cost, as I explained, is now at 10.6%, which is a decline of 260 basis points since Q3 FY23.

NIM has improved to 13.6% compared to 12.5%, which is an outcome of both improvement in the yield as well as reduction in the financial cost.

PPOP grew quarter-on-quarter to 52 crores compared to 16 crores in Q1, including some write-backs. PPOP almost doubled to 79 crores in Q2 FY24, if we have to look at it with write-backs, against 40 crores, which was the number in Q1.

PAT, resultantly, was at 54 crores compared to 12 crores reported in Q1. This has an impact of 7.9 crores pertaining to the DTA reversal. As you are all aware, we are going in for a merger with the subsidiary, Criss Financial Limited, and before the appointed date, if there was any DTA, it would not be available to the merged entity. Accordingly, this 7.9 crores was reversed as a one-time impact. Standalone PAT increased to 35 crores, if we have to look at it on a standalone basis, compared to 16 crores in Q1.

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With this, I have completed all the highlights. We may open the floor for any questions and answers that are required.

**Operator:** Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to please use handsets while asking a question.

Ladies and gentlemen, we will now wait for a moment while the question queue assembles.

Our first question comes from the line of Meet Sanghoi with PL Capital. Please go ahead.

**Meet Sanghoi – PL Capital:** Hi, and thanks for the opportunity. I just wanted to understand how trends are in the month of October, specifically collection efficiencies in the overall book and also in the drought- and flood-affected areas. That is my first question.

**Shalabh Saxena – MD & CEO:** Meet, as of date, since we are towards the month-end, the month has looked steady, both in terms of business as well as recovery. Yes, there have been efforts in certain pockets of Maharashtra towards recoveries, which I explained, but otherwise it still holds good for the month.

**Meet Sanghoi – PL Capital:** All right, got it. How is growth looking, given that in certain regions, as you mentioned, we have curtailed new customers? How is the disbursement trend? Are we hitting the 500-crore mark, or have we put the growth pedals on hold for now?

**Shalabh Saxena – MD & CEO:** Growth is not being put into any sort of slow mode or stop mode. It is just that we are being a little more careful and ensuring that the checks and balances are a little more stringent. But yes, this month, as I said, even in terms of disbursement and business, it looks good.

**Meet Sanghoi – PL Capital:** Got it. Thanks. Just one last thing: Karnataka, Andhra Pradesh, and Telangana—what is the month looking like in these three states?

**Shalabh Saxena – MD & CEO:** As of now, Andhra, Telangana, and Karnataka do not have much of an issue. There are some issues in Maharashtra, but again, not too much of a worry at this point in time. We need to keep a watch. As I said, we have worked out a strategy for Maharashtra in terms of how we source going forward, categorizing customers as existing, new to Spandana, and new to credit. We have to be watchful and a little more stringent in terms of how we onboard customers.

**Management:** Otherwise, they are looking okay.

**Meet Sanghoi – PL Capital:** All right, thanks.

**Operator:** Thank you. Ladies and gentlemen, to ask a question, you may please press star and one.

Our next question comes from the line of Rudraksh Raheja with I-Thought Financial Consulting. Please go ahead.

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**Rudraksh Raheja – I-Thought Financial Consulting:** Thanks for the opportunity, sir. You mentioned Maharashtra with regard to the drought situation. Can you help us understand whether there is any other weather-related situation in other states as well, perhaps drought or excess rains? If so, how is it impacting our business as of now?

**Management:** It is too early at this stage. We keep having rains in Odisha, Andhra, and Telangana, but these are all too early. It just happened over the weekend. As I said, Maharashtra has been in the news, which also accentuates the issue at times. But as of now, since we are on the 20th of the month, I am not seeing too much stress on any of the fronts. As I said, a little more effort is required in Maharashtra towards collections, but it is still holding good.

**Rudraksh Raheja – I-Thought Financial Consulting:** Understood, sir. Historically, whenever we have faced these issues—droughts and excess rains—what is generally the timeline before we get more clarity on how collections and sourcing are developing in the market? Typically, how long does it take for us to manage this?

**Management:** If you look at the industry over the last 10-15 years, natural calamities have never been a major issue. For instance, in 2018, when Kerala had one of its worst floods in 100 years, it took about 3-4 months for people to get back on their feet. These are people who know that they have to dig the well and drink the water. People are still very resilient in that part of the country, and they know that these things will keep happening.

If the industry has at any point in time gone through really tough times, as it has in recent times, it has been because of other reasons and not because of natural calamities.

But I would still believe that in about 3 months' time, if things go well, especially if most of the local governments support people in one form or the other, people should be back on their feet.

**Rudraksh Raheja – I-Thought Financial Consulting:** Understood, sir. And if we were to draw a comparison between this year's drought and any other year in the past that we may have faced, what would be the most appropriate comparison? Which year may have had a very similar situation, just for us outsiders to understand the situation?

**Management:** It is very difficult to predict all this because you still have to wait and watch. It is more in the press that one gets to read about it, and it is like sometimes looking at the television and seeing that it says it is 6° outside, and you start feeling chills and shivering, even though it may not be that cold.

I would say that you have to wait for 1 or 2 more months to understand the real impact. If it is impacting us in a big way, or if it is something where there is some impact but not something to lose sleep over, we will know then.

**Rudraksh Raheja – I-Thought Financial Consulting:** That makes sense, sir. Thank you for your explanation.

**Operator:** Thank you. Participants, you may press star and one to ask a question.

Our next question comes from the line of Shripal Doshi with Equirus. Please go ahead.

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**Shripal Doshi – Equirus:** Hi, sir. Thank you for the opportunity, and congratulations on the good recovery that you are seeing. I have one question regarding what you said about having seen such drought-like or flood-like situations in the past. This time around, is it fair to assume that we might get clarity on the depth of the impact by December, January, or February? So far, I think overall collections are holding up well, and perhaps the impacted customer segment might actually slip to NPA or higher buckets only by December or January.

The follow-up would be to understand what percentage of our customers today are purely oriented toward agri income. I want to understand these two aspects.

**Management:** Coming to the agri-based customers, people tend to confuse rural lending with MFI. MFI customers are not directly engaged in agriculture. They may be in allied activities, or they may have multiple sources of income, one of which may be some activity relating to agriculture or agriculture-related activities. Otherwise, we do not lend for any form of farming. None of the industry players actually do that.

To answer the first part of your question, yes, December or January is the right period by which you will have more clarity on how things are playing out. Again, it is too early because with the spread of information these days and the way social media plays out, you never really know the intensity of either the good thing or the bad thing, because you have to take everything with a pinch of salt.

Hopefully, November should indicate the first signs, and the first signals should come through in November. By December or January, you should have more clarity on how things are playing out.

**Shripal Doshi – Equirus:** Right, sir. Just a follow-up: while I understand that agri does not mean farming, what percentage of our customers would be dependent on agri-related income, meaning going to the farm and working for daily wages? With your experience, do you see that proportion coming down in the last 7-8 years? Today, a customer even in a tier 4, 5, or 6 geography may have multiple sources of income, perhaps milk income or somebody in the family having employment income.

I want to understand it from that angle: how much is the dependency on just this daily-wage-related income for our customer segment in geographies where the drought has been highly affected or is perceived to be affected and is being discussed?

**Management:** You will never come across a person who does the same thing throughout the year. If they are doing any form of business or something like sericulture, they may be doing multiple activities during the course of the year. They are actually multi-skilled because they know that you cannot rely on one source of income for the entire year, because it has its own cycles.

To that extent, you would find a lady who can do tailoring, who can also work in some sort of beauty parlor, and who can do something else. Reliance on one line of business is gone; it is a thing of the past. It is multiple income, and that is why, if you see the microfinance business, we do not cater to people below the poverty line. We are talking about people above the poverty line.

Whether it is 3 lakh of annual income or 4 lakh is always debatable because it is not recorded anywhere, but these are all families who have their own aspirations of sending their children to

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school. Many of them send their children to English-medium schools, and so on and so forth. They are multi-talented.

Even if situations like these arise, I am sure they will find a way. They are not going to sit and twiddle their thumbs, asking what to do next. They have their backup plan well in place.

**Shripal Doshi – Equirus:** Right. Right, sir. Thank you so much for that positive note. Another question was on the LAP front that we had under the CFL. What is the aspiration there in terms of growing that segment? I understand that this segment was particularly limited to Andhra Pradesh or that region, but incrementally, how do we plan to roll that product out to other states and districts?

**Management:** We are present in 6 states: Rajasthan and Madhya Pradesh in the north or west, whatever you call it, and in the south, Andhra, Telangana, Karnataka, and Tamil Nadu. The book is currently about 305-odd crores. The ambition is to take it to 1,000 crores over the next 2-3 years.

What has happened is that we used to focus on the 1 to 5 lakh segment so far, which we are now changing to 5 to 15 or 5 to 20 lakhs, because that is a different profile. The 1 to 5 lakh segment mirrors the microfinance profile. We wanted to have three lines of business even post-merger. One, of course, is the JLG, which is the bread-and-butter business, followed by individual loans, which are better underwritten but will be a small book, and followed by micro LAP, which is a secured book.

These are the 6 states, and we plan to continue in these 6 states. No new states, at least in the next year or so, but we will grow in all these 6 states. We are trying to revamp our people, bring in more experienced people, and bring in people who are looking at affordable housing rather than micro housing for micro LAP.

**Shripal Doshi – Equirus:** Got it. Got it. Sir, can I squeeze in one more question, if you allow?

**Management:** Sure, sure. Carry on.

**Shripal Doshi – Equirus:** Yes. My last question was to understand, since you are changing the ticket-size focus from 5 to 15 incrementally on the LAP side, what pricing, LTV, and tenure do we have in mind for this particular product that we want to focus on?

**Management:** Tenure will be 7 to 10 years, ideally 7 to 8 years, with some exceptions around 8 to 10 years. The LTV is going to be about 60%; in some cases, it may go up to 65%. Pricing, again, is between 19 and 22.

**Shripal Doshi – Equirus:** Got it. Will this be rolled out from the same MFI branches, or will we have a separate network?

**Management:** No, we have a completely separate set of branches for LAP. There are 86, which we are trying to bring down to about 75 to 70 over the next couple of months, but all these 70 are exclusive LAP branches. What might happen is that, going forward, once the merger is effective, some of the SSFL branches can also refer leads.

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**Shripal Doshi – Equirus:** Got it. Got it. Got it, sir. Got it, though. Thank you so much for answering all my questions in detail, and good luck for the next quarter.

**Management:** Thanks a lot.

**Operator:** Thank you.

Our next question comes from the line of Divyansh Gupta with {? Latent PMS ?}. Please go ahead.

**Divyansh Gupta – {? Latent PMS ?}:** Hi, sir. Good evening. My first question is regarding provisions. I think in the Q1 call, you had mentioned that on an annual basis, we expected zero or almost nil credit cost. This quarter, that has shown up. Is there a change in guidance, or do you expect that to revert to nil credit cost {? for the year ?}?

**Management:** I always said that gross credit cost would be 2.5% to 3%, and we are holding good because if you have 99% or 99.5% collection efficiency, even if you flow 0.5%, you flow 6% during the course of the year. If you are able to collect 50%, it is going to be around 2.5% to 3% gross.

Then, of course, there are recoveries. If recoveries are better, they could lead to nil or marginally positive credit cost. As of now, it is holding good, but gross credit cost could be hovering between 2.5% and 3%.

**Divyansh Gupta – {? Latent PMS ?}:** My question was specifically on a net basis, which is net of recovery. Is there guidance in your mind on what we should expect for the half of the year?

**Management:** Looking at the times we are currently in, guidance could be a little ahead of time because of everything playing out in the marketplace in certain states. But we are trying to see how best we can keep it to the bare minimum.

**Divyansh Gupta – {? Latent PMS ?}:** Got it. And the second question is on the walk of the credit cost. The GNPA number is pointing to a minus 31. Does it mean that customers who were DPD 90, say S3, have moved to S1 or S2?

**Ashish:** Hi, this is Ashish. Divyansh, we did have an ARC transaction in the subsidiary, because of which the GNPA number has reduced. I think that is the impact which you are able to see in the numbers.

**Divyansh Gupta – {? Latent PMS ?}:** But this is because of—sorry, can you repeat? ARC?

**Ashish:** Yes, we have done an ARC transaction. We sold a book that was in GNPA outside.

**Divyansh Gupta – {? Latent PMS ?}:** Got it. If I remove it, then the NPA quality of the stress is much higher. Is that a correct understanding?

**Ashish:** No, it will still be a reduction. It may not be as steep as what you see right now, but it will still be a reduction compared to the previous quarter.

**Divyansh Gupta – {? Latent PMS ?}:** Sorry, if this 72 minus 31 is 41, this is a 42 in your P&L on gross provision. If this 31 [crosstalk]

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**Ashish:** [crosstalk] I was talking about GNPA as a percentage of the book. There will still be a reduction. In terms of absolutes, just give me a second. Which 1.3?

It is 1.35.

Yes, so it was a 15-crore increase on a gross basis.

**Divyansh Gupta – {? Latent PMS ?}:** A 15-crore increase on a gross basis. It has gone to—got it. Okay, I will join back the Q&A in case there is a doubt.

**Ashish:** Sure, sure. Yes.

**Divyansh Gupta – {? Latent PMS ?}:** Thanks.

**Operator:** Thank you. Participants, if you wish to ask questions, you may press star and one.

Our next question comes from the line of Rahul Kumar with {? Abakkus ?} Fund. Please go ahead.

**Rahul Kumar – {? Abakkus ?} Fund:** Yes, hi. Just one question: do we insure our loans through the CGSMI scheme?

**Management:** Thus far, no. We might look at it in the coming year.

**Rahul Kumar – {? Abakkus ?} Fund:** Okay. Okay, understood. Thank you.

**Operator:** Thank you. Ladies and gentlemen, to ask a question, you may please press star and one.

The next question comes from the line of Shubhranshu Mishra with PhillipCapital. Please go ahead.

**Shubhranshu Mishra – PhillipCapital:** Hi, thank you. In the PPT, it is not clear what the MFI proportion versus the non-MFI proportion is. Can we speak about that and how we plan to scale up the non-MFI proportion? I am sorry; I joined the call late if you have already spoken about it. Also, could you spend 2-3 minutes on this?

The second point is that there are still customers who are Spandana plus 3. How many of them account for delinquent customers? How are we looking at FOIR? We do not speak about FOIR anywhere in the PPT. What is the FOIR distribution, say, between 40 and 50, 50 and 70, and 70-plus, if we can speak about that? Thanks.

**Management:** Let me start with your third observation first. FOIR is mandated by the SROs, so ideally one should not exceed a FOIR of 50%. I do not see any reason for that; our rule engines run at a maximum of 50%.

Now, coming to qualifying assets, Spandana, the parent company, does only qualifying assets. One hundred percent is qualifying assets. It is the subsidiary, Criss Financial, that does a combination of individual loans and micro LAP.

Even in a post-merger scenario, your JLG loans will continue to be 60-70%, another 20-odd percent will be cash, 1% or 2% could be individual loans, and 8-10% would be micro LAP. As we keep growing micro LAP, of course, the bulk of the loans will still continue to remain JLG, unless

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tomorrow the regulator comes and says that the qualifying asset requirement, which used to be 75% and was brought down to 60%, is further brought down to 50%.

There was one more question in between. Could you repeat it?

**Shubhranshu Mishra – PhillipCapital:** MFI, non-MFI.

**Management:** I clarified the MFI, non-MFI point.

**Shubhranshu Mishra – PhillipCapital:** Essentially, just a clarification on the FOIR: even if we see Spandana plus 2 and Spandana plus more than 3, would the FOIR here also be less than 50%?

**Management:** Everywhere. Everywhere. At Spandana today, 100% of my loans are at most with me as the third lender. I do not breach the limit, unless there is a bug in the system and an isolated case comes here and there. Otherwise, I do not breach it at all.

**Shubhranshu Mishra – PhillipCapital:** Understood. This was very [cut off]

**Management:** The delinquency has got nothing to do with those numbers, because we are the first lender, second lender, or at most the third lender.

**Shubhranshu Mishra – PhillipCapital:** Understood. This was very helpful. Thank you so much.

**Management:** Welcome.

**Operator:** Thank you. To ask a question, ladies and gentlemen, you may press star and one. Our next question is a follow-up from Divyansh Gupta with Latent PMS. Please go ahead.

**Divyansh Gupta – Latent PMS:** Yes, the previous one got cut off. The next two questions: what is the technical write-off policy for a loan?

**Management:** 455 days.

**Divyansh Gupta – Latent PMS:** Sorry?

**Management:** 455 days.

**Divyansh Gupta – Latent PMS:** 455 days. Got it. Which means that a large bulk of previous loans will still be coming into the write-off pool, or is that more or less done and dusted?

**Management:** Most of the loans [cut off]

**Ashish:** No, GNPA stands at 2.6%. Any write-off can come from this only if they move—if there is non-repayment for the next period. So, 90 plus 365 is how 455 is arrived at. If for 1 year you are not able to collect anything from the customer, then such loans will move into technical write-off.

**Divyansh Gupta – Latent PMS:** Okay, let me ask it differently. If I split the AUM for the customers to whom we have started disbursing now versus the [trails off]

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**Ashish:** I understand now, Divyansh, what you are asking. If I have to split the GNPA or look at the new book and dissect what percentage is in GNPA, then that would be 0.5%.

**Management:** When I say a new book, or when Ashish says a new book, it is disbursements effected from April 1, 2025.

**Divyansh Gupta – Latent PMS:** Got it. FY25 disbursal versus pre- and post-FY25. So post is 0.5% and the balance is pre-FY25. Right?

**Management:** Yes, that is right. That is correct.

**Divyansh Gupta – Latent PMS:** Got it. The other question was the incremental cost of debt of 10.6. Does it include any government scheme-related drawdown, and what would have been the cost excluding it?

**Management:** We said 10.8. 10.6 was including the CGS scheme, and 10.8 was without the CGS scheme.

**Divyansh Gupta – Latent PMS:** 10.8. Got it. Understood. That is all from my end. Thank you.

**Management:** Welcome.

**Operator:** Thank you. Ladies and gentlemen, to ask a question, you may please press star and one on your touch-tone telephone. Participants who wish to ask questions may press star and one at this time.

Our next question comes from the line of Ashwini Agarwal with Demeter Advisors LLP. Please go ahead.

**Ashwini Agarwal – Demeter Advisors LLP:** Hi, good evening, and congratulations on the good progress being made on growth, asset quality, and the return to profitability. My question is: how do you see the next 2 to 3 years playing out? Obviously, we are living in an uncertain time from a short-term perspective, but given all the levers and capital that you have in place, how do you see the next 2 to 3 years playing out? If you were to hazard a guess for fiscal '29, what kind of ROA and ROE do you think is possible with reasonable assumptions? How would you paraphrase the major risks that you see to that guidance—or not guidance, aspiration, let me put it that way?

**Management:** I will allow Ashish to speak about the numbers on ROA and ROE. If the question was how I see this business moving over the next 3-4 years, what we went through over the last 18 months was something that the industry never expected. We all thought that it was a one-quarter issue, which dragged on for about 5-6 quarters, and people really learned a hard lesson.

Even during the CGS scheme, a lot of these mid-sized and small MFIs could not garner funds because the banks were very selective about whom they lent to. With the SROs now playing a very active role and being duly supported by the regulator, I think there is some order in the marketplace, ensuring that we have a proper selection process in place.

There was a time when people used to say that a customer was regular with them and that they did not care whether she was regular with others or not. But it was only a matter of time before the

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woman exhibited similar behavior with them as well.

With controls being in place, yes, we are dealing with a segment that is at the bottom of the pyramid, but definitely above the poverty line. We are going to have some shocks, hurdles, and hiccups, but hopefully it should play out, given that we still have a sizable number of customers who continue to borrow from the unorganized sector at 60% to 100% per annum, and many of them are coming into the organized fold.

People are also realizing that if they do not honor the repayments, it could be a one-time loan from one institution that they can get away with, but further borrowing gets stopped. I definitely see growth in the sector. We are currently at about 3.4 lakh crore, and there will definitely be growth.

Growth is going to be calibrated. You cannot talk about 40-50% growth, but 10% to 15%, 20%, or 25%. This could vary from company to company depending upon which end of the spectrum they are in, but definitely there will be growth from here over the next at least 3-4 years.

**Ashish:** Let me take the ROA and ROE question. For the current financial year, since you also spoke about the short term, we should just maintain the trajectory for the coming quarters.

However, in a business-as-usual environment, and that BAU is from FY27 onwards, we feel we should get to an ROA of 3.5% to 4%, which is what we have stated, and we are very confident that this will play out. ROE accordingly, with 4x gearing, should be closer to 14-15%, around that level. That is the number we are looking at.

**Ashwini Agarwal - Demeter Advisors LLP:** In short, a few years ago Spandana was at a 500-crore profit level. I know that number sounds insane today, but by fiscal '29 you should be back at that level if things play out this way. Would that be a fair assumption?

**Management:** We [laughs]—may your words come true; what more can we say?

**Ashwini Agarwal - Demeter Advisors LLP:** No, but I mean it is not unrealistic in terms of spreads, because your cost-to-income should decline from where you are. Your spreads seem to be improving, and your cost of funds seems to have gone down. I think that should be possible, but do you see—I mean [cut off]

**Management:** Mathematically, yes. It is like playing on a pitch. You say that you have the best team, so why cannot you bat? But in the first couple of overs that you play in Australia or England, when the ball swings, you realize that it is a tough pitch.

On the face of it, what you are saying definitely holds good. It is a simple business, but people make a mess of it. If you are chasing 40% growth, you are going to run into trouble at some point in time, and then 40% growth can lead you to about a 60% downfall.

We are trying to keep it simple and keep improving productivity, without taking our eyes off recoveries. On costs, build the cost, but ensure that you first start building the revenue before you build the cost, so that you have predictable revenue against which you have variable costs, rather than having predicted costs and variable revenue.

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**Ashwini Agarwal – Demeter Advisors LLP:** Let me ask the same question slightly differently. What kind of aspiration would you have for a sustainable growth rate in AUM? Would it be of the order of 15%, or of the order of 25%?

**Management:** At this point in time, I would say that we are aiming for a near-term target of reaching the 10,000-crore mark by March '28.

**Ashwini Agarwal – Demeter Advisors LLP:** Okay. In terms of CAGR—

**Management:** The CAGR might sound high because of a low base, but that is what our plans are.

**Ashwini Agarwal – Demeter Advisors LLP:** When do you think you will need the next tranche of capital? I know you have called money from the partly paid rights issue, and leverage is quite low. Let me put it differently: what leverage ratio is comfortable for you? You mentioned 3 to 4 in passing when Ashish spoke about the ROA and ROE level. Is 4x the limit at which you would raise more capital?

**Management:** We are looking at sometime in the middle of next year if the plan goes according to what we are aiming for.

**Ashwini Agarwal – Demeter Advisors LLP:** Okay. Okay. Thank you so much, and all the best. Thank you.

**Management:** Thank you.

**Operator:** Thank you. Participants, to ask a question, you may press star and one. Our next question comes from the line of Abhijit Tibrewal with Motilal Oswal. Please go ahead.

**Abhijit Tibrewal – Motilal Oswal:** Yes, good evening, sir. Thank you for taking my question. I am trying to understand one thing because we have not seen deficient rainfall and monsoons playing out this way in India for many years.

How do things typically work? As I keep reading, I also read that there are state governments trying to support farmers. Earlier today, I was reading that in Maharashtra they are planning to give 5,000 rupees to every farmer in Maharashtra.

What I am trying to understand is that, while you said MFI is not really equivalent to lending to farmers or to agri, these customers could be involved in agriculture and allied activities. In times of drought, does it happen that their incomes are impacted and they are then not in a position to repay?

The only thing I am trying to do here is differentiate between what we saw in the last asset-quality cycle, which I think all of us acknowledge was because of customer over-leveraging. This time, if there is some stress, as you also acknowledged, a clearer picture will emerge by perhaps December or January. If we see some defaults, will that be mainly because the incomes of these customers have been impacted and they are not in a position to repay, so there might be delays? Do you think it eventually gets to a point where we see credit costs or eventual write-offs coming out of these delays?

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**Management:** We are talking about drought at length, but do we realize that there are floods almost every year? Coastal parts of Odisha, Assam, and the Northeast experience floods, wherein people lose their cattle and their lives, among other things. We have taken it for granted that this happens every year.

I am not trying to play down the drought. Yes, it is something that all of us are trying to face. But as I said in the past, given the profile of our customers, they are multi-talented. They know how to handle a situation. They may still go through a period of stress; I do not deny that. So there could be a slip-up in EMIs, but the tendency is to pay.

**Management:** That is why today, if you are able to recover anywhere between 12, 13, and 14 crores from customers who are 90-plus, why would a customer pay when she is 90-plus? She still pays because the intent to repay is there.

There could be stress, with no denying that. By December-January, as I said, it will play out more openly and clearly, showing which way the wind is blowing. But the intent of the customers, as I said, is to pay as long as they are able to identify an alternate way of earning.

All this state government help is really appreciable. Apart from this help, they are also receiving a lot through schemes in the form of DBT. Today, a family receives multiple DBTs. So the basics are all taken care of. It is not that the basics are not taken care of.

As I said, it is very difficult to predict how things will pan out 2 months down the line. But somewhere I am gaining confidence that, given the profile of the customers we have seen for so many decades, and given that never in the history of microfinance has a natural calamity—whether an earthquake, drought, or flood—really distorted the industry, this is one more event or phase that will also pass. More numbers, as I said, will emerge over the next 2 months.

**Abhijit Tibrewal – Motilal Oswal:** Right, sir. Just one more clarification, if I may ask. Earlier in the call, you said that it is only in the state of Maharashtra where you have identified a few branches that need to be closely monitored. As we speak at the end of October, is it only in Maharashtra that some delays are happening, while in all other states where you are present, you believe there are no customer delays and collections are on course along expected lines?

**Management:** There are 10 states that contribute about 85% of the microfinance industry's business. The same state can behave differently for different sets of institutions. It has to do with your district presence, the selection of customers, your own ability to reach out to customers, and so on.

At this point in time, our internal assessment has identified Maharashtra. Again, as I said, we have divided the state of Maharashtra. We have 127 branches, and we have tried to classify them into A, B, C, and D and determine the steps we need to take across each category of branch.

Tomorrow, if there is an issue pending, as people are discussing in Karnataka, but the industry as such has not felt any turbulence there as of now, we will again take the same action.

**Abhijit Tibrewal – Motilal Oswal:** Sure, sir. This is very, very useful. Thank you very much, and I wish you and the team all the very best.

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**Management:** Thank you.

**Operator:** Thank you. The next question is from the line of Sanjana Shivaram with DAM Capital. Please go ahead.

**Sanjana Shivaram – DAM Capital:** Hi, sir. Thank you so much for taking my questions. I wanted to check where we stand against the guidance you had given for this year earlier. You had said that we were expecting around 6,000 to 6,500 on disbursements, around 6,000-plus on AUM, and around 675 crore on opex, if I am not mistaken.

With the tightening of some guardrails in Maharashtra and the higher collection efforts we are undertaking, where do we stand against those targets now?

**Management:** As of now, at the end of October, we stand where we expect to stand as of March '24, so there is no change in the forecast. As we go along, there is no point in making a false commitment. If things change, they change, but not as of now.

**Sanjana Shivaram – DAM Capital:** Right, right. Even on the opex front, do we think that with the increased collection efforts, we will be able to meet that target?

**Management:** Opex depends on how you are positioned. There are areas where we are trying to save, and we are investing some of these savings. The savings are being put back into the business in areas where they are required.

For instance, we are trying to increase our count of people in the 90-plus bucket. We are building some leadership capability in collections. These are all a left-pocket, right-pocket arrangement.

**Sanjana Shivaram – DAM Capital:** Right, right.

**Management:** But overall, I do not see opex going up.

**Sanjana Shivaram – DAM Capital:** Okay. Okay, sir. That is all from me. Thank you.

**Operator:** Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for closing comments.

**Management:** Thanks again to all of you for those interesting questions, some of which, or many of which, are really relevant. We are just keeping our heads down, trying to focus and ensure that whatever so-called mistakes we have made in the past, we are nowhere near repeating them.

It is a simple business: just stay focused on the basics. At the same time, we are working on a couple of projects to ensure that we identify the green shoots for improving productivity, improving recovery, and managing costs. Hopefully, with the blessings of the Almighty, things should sail through. Thank you.

**Operator:** Thank you. On behalf of Spandana Sphoorty Financial Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

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