May 29, 2025

National Stock Exchange of India Limited Exchange Plaza, C-1, Block-G, Bandra Kurla Complex, Bandra (E), Mumbai - 400051 **NSE Symbol: CSLFINANCE**	**BSE Limited** Corporate Relationship Department Phiroze, Jeejeebhoy Towers, Dalal Street, Mumbai-400001 **BSE Scrip Code: 530067**

Dear Sir/Ma'am

Sub: Transcript of the Conference Call held on May 26, 2025

With reference to our letter dated May 21, 2025, intimating you about the conference call for Analysts and Investors held on May 26, 2025, please find attached the transcript of the aforesaid conference call.

The above information shall be made available on the website of the Company viz. www.cslfinance.in.

We request you to kindly take the above information on your record.

Thanking You

Yours Faithfully,
For CSL Finance Limited

PREETI GUPTA
Digitally signed by PREETI GUPTA
Date: 2025.05.29 10:40:39 +05'30'

Preeti Gupta
(Company Secretary & Compliance Officer)

Encl: A/a

CSL Finance Limited

Q4 and H2 FY25 Earnings Conference Call

May 26, 2025

Moderator: Ladies and gentlemen, good day and welcome to the CSL Finance Limited Q4FY25 Earnings Conference Call hosted by TIL Advisors Private Limited. As a reminder, all participant lines will remain 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 the operator by pressing '*', then '0' on your touch tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors Private Limited for opening remarks. Thank you and over to you.

Sayam Pokharna: Thank you, Ryan. Good evening and thank you for joining us in this Q4 and FY25 earnings conference call of CSL Finance Limited. The investor presentation has already been uploaded on the Stock Exchange and on the company website. If you wish to be added to our mailing list, please feel free to write to us.

To take us through today's results, we have with us from the management team, Mr. Rohit Gupta - Managing Director, Mr. Naresh Chandra Varshney - Chief Financial Officer, Mr. Chandan Kumar - Head Strategy & Business, Ms. Rachita Gupta - Whole Time Director, Mr. Atul Agrawal - President, Finance and Treasury, Mr. Chirag Gupta - Credit Head, Wholesale.

We will begin with a brief overview of the quarter and of the year from Ms. Rachita Gupta, followed by your Q&A session. Please note that any forward-looking statement made during this call should be considered in conjunction with the risks and uncertainties that we face. These risks and uncertainties have been outlined in our annual reports.

With that, I would now like to hand over the call to Miss Gupta over to you.

Rachita Gupta: Thank you, Sayam. Good afternoon, everyone, and thank you for joining us today. I am pleased to share the highlights of CSL's performance for Q4 and FY25. As you can see, it has been a year of consolidation for the Company, primarily on the SME Retail front. At the same time Wholesale vertical continued to demonstrate resilience and growth in FY25, this underscores the importance of our diversified business model during challenging periods.

To begin with, our AUM registered growth of 5% QoQ and 25% YoY in Q4, reaching ₹1,195 crore. Parallely, our loan book stood at ₹1,157 crore as of year-end. We fell short of our initial AUM target due to changing and dynamic circumstances in the industry's operating environment over the past year. Over the last year, several issues emerged in the unsecured credit segments, with their effects spilling over into the secured lending portfolio across the industry. Although CSL Finance operates purely in secured lending, we did witness the impact of the overall slowdown in the industry. Slippages increased, and concerns about overleveraged borrowers became more prominent.

In the face of these challenges, the industry tightened its credit policies. CSL went a step further, adopting even stricter credit policies and choosing to prioritize caution over rapid growth. Our response included changes in credit policies, structural adjustments to our teams and certain leadership roles, as well as improvements to our systems and processes to enhance underwriting and employee productivity. We ensured that we emerged stronger from this consolidation period.

All of this led to a year of consolidation in the SME Retail vertical, shifting our AUM mix in favor of the Wholesale segment, which continued to grow. Currently, the SME Retail to Wholesale AUM mix stands at 34:66 for FY25.

Looking ahead, we believe that, with all the changes and transitions now in place, the SME Retail segment will become more resilient, independent, and team-driven, as well as operationally efficient, and competitive, supported by the continued investments in our tech stack. At the same time, we will continue to balance our Wholesale vertical for better overall company performance.

Coming to our Asset Quality, Slippages increased in FY25, resulting in a rise in GNPA and NNPA by 2 basis points and 9 basis points, respectively, over the previous financial year. This was solely on the SME Retail front, as explained earlier, as well as some impact from our pilot project, i.e., Suvidha loans, during the first half of the year.

While write-offs increased in FY25, we want to assure our stakeholders that the company is confident in making decent recoveries from these cases over the next 12 to 18 months. We should have a good track record in this domain, and recoveries from these elevated numbers should begin accruing from FY26.

Net Interest Income stood at ₹146 crore in FY25, an increase of 21% YoY. NII performance could have been stronger if not for the negative carry on excess liquidity maintained during certain parts of the year.

PAT for the year stood at ₹72 crore, registering an increase of 14% YoY. PAT reflected the impact of higher provisioning, write-offs, and increased operating expenses from the recent branch expansion. We expect operating costs to normalize as new branches mature and begin contributing to AUM growth. At the same time, elevated provisioning and write-offs should also subside in the coming year.

I would also like to update you on some of our operational developments during the year. We significantly expanded our lender portfolio this year with the addition of 9 lending partners, bringing the total to 32. While access to debt funds has improved with a larger portfolio of lending partners, there is scope for further improvement as we grow our SME Retail portfolio.
We will also start to see some benefit on our average cost of borrowing given the recent rate cuts by the RBI. The benefits of the earlier rate cut from February should start to accrue from Q1, and subsequently from the April rate cut. We have also made some structural alignments in our product portfolio, including the addition of a new product at lower ROIs. Overall, we expect some moderation in average yields as well due to a mix of reducing ROI as well as changed product policies.

On the branch network front, we saw a net addition of 14 branches, bringing the total to 43 branches in FY25. We also made some adjustments to existing branch locations and consolidated a few underperforming branches as part of our regular review activities. We plan to further expand the branch network in FY26, ensuring that recent additions start contributing to AUM growth. The focus remains on improving employee and branch-level efficiency.

Our Off-book AUM also took a backseat during FY25 as we saw a moderation in SME Retail disbursements and did not have enough AUM to down-sell, with the primary focus being on organic growth.

For the coming financial year, we remain cautiously optimistic. The Wholesale segment should continue to perform well, and SME Retail is expected to return to the growth track following the consolidation in FY25. We have implemented many learnings from last year into our models—whether in refining our product niche, enhancing our leadership and team structure, or strengthening our credit policies and organizational systems.

With growth returning to the SME Retail front, the AUM mix should rebalance in favor of SME Retail, and profitability metrics are expected to improve as SME growth accelerates.

I am also pleased to announce that the Board has recommended a dividend of ₹3 per equity share. CSL Finance continues its dividend-paying policy, demonstrating our commitment to fair value creation for all our stakeholders.

Moderator: Thank you. The first question comes from the line of Sanjay from Bastion Research. Please go ahead.

Sanjay: Hi, Sir. Thank you for the opportunity. So, my first question would be in FY24 or early Q1 FY25, our rating has been upgraded during that time and that time we are saying that there would be an improvement in the cost of borrowing by 50 to 70 basis points while for full year, the cost of borrowing has been increased by 104 basis points. So, can you please throw some light as why the cost has been increased? Also, what is the tape going forward as well?

Rohit Gupta: Yeah, first, I think here's some wrong numbers. Our cost of borrowing only went up by .10 in the whole year. And secondly, yes, our rating was increased but in the last year we witnessed because of the turbulence regarding the MFIs and the unsecured, the whole lending industry was little cautious first on the lending to NBFC's and the rate negotiation were becoming little difficult. So now the effect of those repo rate cuts, we are already started seeing and we have a .25 basis point already been reduced in most of the loans which have been linked where with those repo rates and going forward now liquidity position is much more easier than what was last year and now I would say the overall environment of the lenders towards NBFCs is far better. And so, we have those some benefit, we will start seeing in this financial year and it has not increased by 104 bps, which we have. It has actually increased by .10 bps only.

Sanjay: OK, sir, will check it out.

Rohit Gupta: You can cross check.

Sanjay: Sir, I'm just saying, so the cost of borrowing for full year is 10.8 for FY25 and for FY25 it's 9.4. If the number is wrong, I would check it out and get back to you.

Rohit Gupta: No, no, no. I don't know, Sir. Neither it was 9.4 ever. We never had 9.4, and neither it was 10.8. Our weighted average cost of borrowing was 11.12, and it went up to 11.22.

Sanjay: OK, Sir. OK. OK. Thank you for the clarification. So, my next question would be on loan book side. So, this year we have seen growth in loan book primarily because of wholesale book, while our major focus area has been on SME size and I understand the SME side of the book for the full year has been quite sluggish because of the industry dynamics. So going forward, how do we see as you as the opening remarks says that SME will be you know growth focus area going forward as well and wholesale will pick up the growth. So how the mix has been changing going forward and what is the growth we are expecting and also on wholesale book I have you know the growth and the asset quality has been unmatched for us. So, 2 questions to ask you here is, is scale a barrier in the wholesale loan-book? and if it is not scale barrier then in the asset quality would be you a deplete going forward if the scale happens before why I'm asking is we are not saying that wholesale would be our growth chunk going forward as well. So just trying to understand how should we think on these terms?

Rohit Gupta: I am taking your second question first regarding the wholesale. We have no challenge in the growing this book. We are already managing 700 crores under the co-lending model, which is not under out book but which is being managed by us. So effectively we want to have a decent mix of both wholesale and retail. Our target was to increase our retail in last two years and we have targeted ourself to increase to 60% by FY27 and still we will strive for that. We may not be able to achieve that 60%, but definitely we will be in the range of 50 to 60% in next 18 to 24 months. So, our approach is to have the right mix of both. It also reduces the mix and so, and SME, yes, the growth was sluggish. We have already highlighted in our presentation and mentioned the various factors behind that. And so, the focus that we have already expanded through 17 more branches last year. The benefits of that will start reflecting in this financial year and will be have more expansion plans. Yes, definitely, we became little cautious and tightened the policies. There were certain regulatory changes. First four or five months of the last financial year was marked by elections and the very strong heat wave accompanied by the very strong monsoon, so the segment we are in, we are in the lowest strata of the population, the bottom 30-40% and which is I would say semi-rural or a little rural side and they have a direct impact on that and because of the slippages which we have seen on the MFI's and the unsecured segment, it's a little bit the slipped into the secured segment also and we tightened our policies. There were certain regulatory changes and with the new structure and we made some structural changes in the team also at the senior level also and wherever we found that there were certain flatness and needs to be improved, we have improved the areas where which we need to do it and hopefully, we should have better numbers from SME and I have Chandan with me who is our Head-Strategy & Business. He can put more light on this part.

Chandan Kumar: Yeah Sanjay, hi. The strategy for the coming year for growing our SME book is mainly towards the expansion plan and stabilizing the branches which we have already opened last year that Rohit rightly told you about that we have opened around 17 branches. The idea is to going penetrating the business of these branches more into the area where they are already established and themselves through the marketing activities. So now we are have started focusing on the per employee productivity as well as the proper branch productivity targets were given to the business team and onwards for like from last 3-4 months, the business has started showing its numbers. We are picking up our numbers month on month and targeting good numbers in coming financial year.

Rohit Gupta: Last year, most of us, whatever we disbursed, the same quantity of the foreclosures happened. That was pre-payment partially through their own sources or in certain cases it was taken over by other lenders. So, the whole of the additional disbursement which we did last year, we had the same amount of foreclosures and you can see that our foreclosure charges income was substantial in last financial year.

Sanjay: OK. And Sir, another question would be what would be the benefit of adding more lenders? Just trying to understand we have added 32 lenders in our side and we are keep on increasing it. So, I'm just trying to understand, these this many lenders what will the benefit going forward? How do you guys see why are we you know keep adding these lenders in our pocket list if you can share any thoughts from your end?

Rohit Gupta: Yeah. Yeah, I will give you one or two lines and Atul will detail in a little bit more. First, the more with diversified lender book we have, there sometimes initially lender comes with the small exposure and it helps us to grow our book size, help us to make borrowings much easier and the more the lenders it becomes more comfortable for other lenders to board in and to increase their exposure. So, it is always better for NBFC to have a diversified lenders with us and in terms of negotiations and the supply of debt to us. So that is the primary reason and every NBFC would like that the more diversified and the larger the lender, it is better instead of dealing with few lenders and yeah Atul?

Atul Agrawal: Definitely. When borrowing money from the banks, is the primary objective for an NBFC, and it is their raw material. So, to have better negotiation with the lenders we have a number of lenders instead of one or two lenders on which we can rely upon. So, in case of a scenario something like IndusInd bank, so, we can have a more lender base with us to negotiate with for our personal lending and it's basically it's our bread and butter and it's our daily job. It's not like the manufacturing industry wherein the organization require money once in a year or twice in a year. We need day in, day out, money. So, we need to a chunk of lenders and all type of lenders, including NBFC, Debt banks and the small finance bank, private bank, every bank including the FII, the foreign institutional investors as current well. So better the base, better the negotiation terms we are having.

Sanjay: Sir, I'm just asking that from the lending book side, the total borrowing which we have from the lenders, how much is from PSU bank, how much is from private banks and how much is from NBFC? If you can share the split between those?

Management: So, 72% is from the bank, which includes private, public-sector banks and small finance banks and 28% on NBFC as on the March 31st and for better split among the banks, I am giving you a number in a while.

Sanjay: Sure, Sir. Thank you. I will come back in the queue. Thank you so much for answering.

Moderator: Thank you. The next question comes from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Hi, good afternoon, everyone. So, my first question is in the initial remarks, we talked about moderating yields because of the product mix changes and also, we talked about you know the benefit of lower cost of funds kind of coming through from Q1. So, how should we see the interplay of both in terms of names, you know going into FY26 if you can little bit on that?

Management: Mr. Desai, the overall IRR, the weighted IRR will remain same. It's only that we are hiring, we are starting with the one product which we are a little lower IRR targeting the prime borrowers. But at the same time, we will be targeting with a little higher IRR less than 10 lakh kind of segment. So, the weighted IRRs will remain same more or less and the names will be the same. It's only that our product horizon will increase and in certain branches where you are able to target prime borrowers' mode which are based in bigger city. So, these are the products mainly for those branches. And so, based on our feedback and the experience, we thought that we need to add 1 more prime product also that will help us to increase our volumes. But and still that product in the overall weightage of the SME, which is like 34% as of now and it will not be more than 5 to 10% of the total book even after the full financial year.

Dhwanil Desai: Oh, got it. Sir, second question is you know, so how should we look at I think last year we were targeting around 1400 odd crores and then we scaled it down to 1250 to 1300 crore AUM. So going into FY26, now that the environment is slightly better and our again, we are trying to refocus on the, you know, SME growth. How should we look at AUM growth for next year and also to achieve let's say to 1400-1500 crore kind of a number in FY26, our disbursement needs to go to a significant level. Because we generally get collections of, you know, 850 odd crores more or less around that range. So, we need to do disbursement of maybe you know 1400-1500 crore to do incrementally 400-500 crore. So, if you can talk a bit about that?

Management: Even if, in spite of all the challenges which we have been facing in the last 2-3 years on the so we have been able to grow in every year, I think 20 to 25% growth we have given in each last three of the year. So, but our focus will remain on SME in terms of we are still, we have thought that in first two quarters we will not be giving any target because we missed that target. We gave very first time and we missed the target last year and so we will be more confident and after seeing these two quarters, we'll be able to give a better guidance but definitely to grow what we have been growing in last 2-3 years, that should be the bare minimum growth which we should be targeting as a company. But in our internal targets which are much higher and we'll be able to give a far better guidance after six months after completion of two years or two quarters. But definitely what kind of growth which we have achieved in last 2-3 years year on year, that should be the bare minimum we should be able to do.

Dhwanil Desai: OK, got it. So last question and I'll come back in the queue. So, you know Rohit, if I look at last 3-4 years, you know we have invested on scaling up SME and our branch network has also expanded and our of course we have grown almost 3X from what we were 3-4 years ago, but employee cost as a percentage of revenue has remained in the same range of 12-13%. So, you know, going into FY26 and FY27 as we kind of you know, get more benefits out of the branch, you know that we have set up three years ago, which is a very substantial portion as per your presentation around 57-58%. So, do we see this percentage you know, coming down and some operating leverage flowing through, you know in FY26 and FY27?

Rohit Gupta: Yeah, definitely. But we invested into lot of senior team in last two years at middle level at the senior level. Now as we told last year also, so we will not be requiring people senior and middle level people for our expansion for next I would say 12 to 18 months. It will only be at the branch level. The more of the people will be coming, so going forward as we increase our branches, the proportionate increase in employee cost will not be there. Yes, definitely in last two years the kind of the expense which we were incurring on the will not be able to get the corresponding revenue in terms of low performance on the SME side. And yes, definitely we are and we are very much hopeful that this year going forward we will start correcting that analogy which has been there beyond the SME and so, the revenue will start reflecting, yes, it proportionately it will definitely come down as our SME numbers start going up. Yeah, but Dhwanil, I just want to add 1 point, but in absolute number it is not going to impact much. Reason being we have a good target for expanding our branch network this year also which will be impacting, increasing our employee cost vis-a-vis with in that proportion itself.

Dhwanil Desai: Overall number should eventually go down, right, because that's the idea of kind of maturing branches becoming more and more profitable so?

Management: Definitely.

Management: It has to come down. It is only that the performance was sub par in last year on the SME side and the projecting numbers have started taking up from this year, you will see that this percentage will come down and if you compare with the industry, I would say still we have because of our mix with wholesale, our overall cost to income and overall employee cost is far better and that is why we have kept both the products so that we are able to have a decent profitability year on year which helps us to increase our net worth and at the same time strengthen our risk-taking ability also.

Dhwanil Desai: No, great to hear that and wish you all the best.

Moderator: Thank you. The next question comes from the line of Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: Hi Sir, thank you for the opportunity. Sir, my first question is a little strategic in nature. So, you know if I look at other companies in the SME secured space which have become big and successful now. For example, in the South you have Five Star finance, maybe Capri Global or SBFC finance, you know they all do small ticket SME secured lending, something similar to the model that we have chosen to enter. So, if you look at all their histories there, they started with some entrepreneurs early on in their journey. The funding or external capital came in and presumably along with capital they brought in technology and ability to scale, etc etc. So, all of these companies have the same kind of journey from about thousand 2000 crore AUM, external capital came in and since then they've grown to 10,000, 20,000, 25,000 crore a year and they're still growing at 25-30% you know every year, whereas you know we were a wholesale lender, we have now come into a SME retail. We are trying to build it out on our own. And we are still at the same kind of growth as these much larger companies like 20-25%. So, Sir, my question to you is, what is your strategic vision for the company because the wholesale lending part, it seems to us that you know it has certain limitations because of our expertise in certain geographies. So, if SME retail is going to be our growth engine and compared to the examples that I've given you. As an investor, Sir, what is the vision I can look forward to from CSL as a company over the next five years, seven years, if you can talk a little about that? How are we finally going to you know, grow because we are still 1000 crore AUM. So, is there a there an aim to be a 10,000 crore an AUM company anytime soon? I would like to hear about.

Management: Thank you. I think the question is very valid and all of the three companies which we have, so that is a benchmark also and we aim that we have able to do that. So, in terms of immediate strategy for next one or two, two years, yes, our focus is on SME and it starts kicking and we will, you will see that our mix will start improving in the favor as SME and you said that others have brought risk capital and raised huge money and that will help us to also raise at the right moment. Now the focus is to build our SME and able to show that we are able to do those kinds of numbers and raising equity at appropriate levels, yes, sometimes, depending on the market conditions should not be a limitation and in terms of developing a technology I would say within the size we are the kind of technology we have developed and we are working with, it is better than most of our peers in our size. And so, lot of groundwork has been done. And yes, the only where we have been able to is the numbers and yes, the focus is to build those numbers and our existing book and the existing ability to raise debt for next 1-1 and a 1/2 years will be more than sufficient and which will give us an opportunity to raise that kind of big leap capital also. So, we just want that we are able to prove ourselves and be more confident on the retail side of doing those numbers and then raising that sense of equity will should not be a challenge. And strategically I would not like to give numbers, but definitely as you said, once those that kind of infusion also happens then the growth becomes much faster. Still the numbers which we have set for ourselves are fairly decent on the SME side and once we start picking up, I think the ball should start rolling in our case also they are definitely the last year was not good and so this year we are very hopeful that the performance should be able to improve.

Management: Just want to add to two points, Nirvana. The names which you have taken like the peers are not going to take the names exactly. But yes, the names which you have taken, we have also benchmarked those competitors as well as the peers in terms of growth as well as the capital infusion and all that thing. And the only single point that we need to understand that the space that in the we are talking about the same book that the competitors of the peers were having in around 2016 or 17 kind of phase where they were at the team level and we have also like but at that point of time the competition space, technology, AI, all those things, product mapping, all those things are quite different that's why growth path different. Now, we think that we are ready for our growth engine and we have planned our self a lot. We did a lot of research on the groundwork that what would be our growth strategy and how we are going to grow this book. So, we are very much sure that pretty sure that in coming 2-3 years down the line and the numbers will start reflecting from the next year or down the line 2 years onwards, and with the vision of coming like you were asking about 5 or seven years or years vision definitely we are going to be a very big business in coming five to seven years. We'll kind of within in line.

Nirvana Laha: Sure, sure. Thank you for that. So, one related question is, if I look into our history as a company, you know we have been a very conservative lender, which is a good thing as an investor. But ultimately, we are also a small company which needs to consistently grow at these high rates, especially because as I mentioned our peers, much larger peers are able to grow much faster. So, my question is, like I've noticed, whenever there has been some kind of crisis in the environment or any kind of, you know, pressure and things are not absolutely good in the credit ecosystem, CSL Finance as a company tends to take a safety-first approach and therefore you know stops the growth momentum and takes care of credit quality although we have always had very good credit quality parameter. So, my question is Sir, was the lack of technology leading us to always sort of press the brakes on growth every time there was something a little off in the credit ecosystem? And if that was the reason, have we now sort of overcome that and are we now confident that irrespective of the environment, we should be able to grow as a small company at about 30% year on year? Do we have that kind of confidence or is there still some journey for us to cover before we reach there?

Management: I'll just let Chandan add and I will also come after him.

Chandan Kumar: First of all, Nirvana just want to clarify that one, as a company on the whole, the AUM part, the growth you need to understand from the two perspectives that the wholesale business that we want to keep people and grow our co-lending book, definitely the overall book size is growing, but we are growing our co-lending book from that we are earning a kind of fees income, right. Now this is this is adding up my denominator. From SME, the growth would be definitely more than that what numbers you are expecting or you are telling right now. We are expecting a very good business that like that 30% odd growth you are targeting, definitely we are going to achieve that in terms of that. Now coming on that technology, or being a little bit credit conservative company part of what we have as a strategy decided that we would be targeting increasing our product bucketing this year and which will be and keeping our tail constant so, we would be adding some high yield product as well as low yield generating product this year also so that we would be able to tap a good business, volume business this year from the prime customers as well as with the high yield customers we would be able to maintain our average yield from the customer part. So, it would be not impacting my top line as well as the book would be the growing in a good way that we are targeting.

Management: So, you're right that sometimes when the external situations are bad, we tend to be little cautious. But so, as we frankly what happened in SME, whenever we wanted to accelerate, now we have built our technology part, our policies has been laid out and what we have learned in last two years that we have to stick to our parameters and we will not dilute on ad hoc basis just to achieve numbers and that is where the slippages start coming up. And now the whole team is aligned to that thing and the one good thing is that I mean due to regulatory changes also that earlier lot of SME cases, reasonable sanctions used to happen but actual disbursement was not there due to a large proportion of cancellation, which has been completely stopped and now our cancellation is practically 0 for last 3-4 years. So whatever numbers what we are seeing are the actual numbers. So, lot of effort has been done on correcting the core part of the whole the SME part and so yes for a company, we see that if the numbers and the currently the quality start giving us achieving those accelerating ourselves will not be a problem and yeah, they'll be a little late that this whole process is taking time but in last two three years, even with the lower business on the SME, lot of learnings have come and from this year onwards, we are much more confident in terms of putting all those things in place and yes, the focus is only to build the book right now. And the players, which you have mentioned, SBFC and Capri not name, but they're definitely working at the lower IRR between 12 to 14% where our average bracket is between 16 and a 1/2 to 22- 23% on the SME side. So, you can't compare Five-Star business which is into the same IRR range. Even Five Star took sometime after that we they started accelerating themselves very fast and if you see the growth has come in even those companies, the last four or five years and they also took time in building up their SME business. So that is the initial year we are or also building up and hopefully the thing should be will be better in next coming one to two years.

Nirvana Laha: Sir. Sir, I hope you are able to grow your SME business by 30-40% each year. The last question from my side is what is this new product that you're introducing which will be lower yield in the SME segment if you can talk about the?

Management: The product would be similar, only the target segment of the customer would be different, Nirvana. We would be targeting more prime customers than no kind of like nothing kind of or the collateral part would be very strong and LTV part. These kinds of customers are little riskier on the rate of interest part. So, they would be requiring a kind of 16 or 15 or kind of ROI. So, I implemented the IRR kind of model. So, we the customer bases their profile, the rate of interest would be charged from 16 to a kind of 22% based on their profiles and all that kind of thing.

Nirvana Laha: 15%?

Management: Yes, yes, we have built up auto builder where the all the parameters will be put and the rate of interest will be decided. Yes, definitely we do have a discretionary power to change that that some negotiation is required but build auto system so it becomes very easier for branches that to offer the rate to their customers by putting those parameters into their system.

Nirvana Laha: Sir. And what will be the ticket size here, Sir? And how is it different from our existing SME mid-size LAP where we are already doing high tickets size?

Management: These cases will primarily be more in cat a , cat b location first, ticket size will be roughly between the 20 lakh+ maybe going up to 50-55 or 60 lakh. So, because that is the minimum requirement of the customer and as the quality and the value is much higher. So that is the minimum ask that the customer also. And so, the only challenge we used to send the will we have also from last year started working with the DSC only last three months we have opened DSC's and connector platform also which was not there earlier. Certain cases used to come in directly from them. Now we have opened it directly and where we will larger companies are working with those kinds of platforms only. So, we have also opened that in last 3-4 months to get business for this kind of segment from those players.

Moderator: Thank you. The next question comes from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks for the opportunity, Sir. My question is bet off. You know if you if you go back to our history and over the past 3-4 years, we have had you know a lot of operational changes plus you know new products haven't worked out. So first we were trying to establish our technology on the SME side then you know we had SME head which this left us few months back. And then there were some product introductions also like Suvidha loan and you know higher ticket size loan of around 40 lakhs and above which hasn't worked out for us. And so, if we look at the current juncture now are we done with all the changes all this policy implementations you know we have are behind us and now this is the time that you know if environment remains pretty decent, we should be able to scale up now and the operational challenges and are, you know, product strategies and all are pulling clear and we should now see growth in let's say ticket size of around 7 and a half to 30,00,000?

Chandan Kumar: Ankit, look just to articulate our re-articulate your questions and look, I we don't find that any of our products, only the numeric culture has been changed. We were earlier also into the last kind of product and we are also right now also into the last kind of product. Only thing is that the depth of the bucket of the product line has been increased so that we would be able to target the earlier we were targeting a later segment of around 18 plus kind of customers and leaving behind below that kind of customers as we are targeting a higher yield. The strategy wise, we are now increasing our target area and we are now focusing that we would be targeting and we would not be losing any customers that is of a kind of prime kind of structure. Why we have implemented that thing. Reason being this this was we that we have built from like our last learning itself that it is creating a mind block in the mind of our sales guys or the business guys that we generally do a kind of the power kind of customer who are target which can be targeted as 18 plus kind of ROI. So, we have just opened them that we are ok to do all kind of products that is a LAP, only the nominee culture that earlier it was called as the kind of Unnati, Pragati and all that kind of schemes were there. It has been now simplified into LAP Senp and LAP salaried. We were earlier also doing LAP kind of product. Now we are also doing the LAP product. Only thing is that ROI bucketing has been increased, so we are targeting much more broader segment, depth segment into the customer and we are targeting much more prime customers so that the volume and the business can be increased keeping our yield at the same level. Yes, we do agree that one of the products that is the Suvidha that is the majorly on a kind of pilot project and we have what we have kept a kind of CAP and we were into the collaboration, kind of the kind of thing where APL Apollo. That is one of the known company and.

Management: So, I can explain what happened in that quarter. Primary 2-3 reasons. It is a product.

Ankit Gupta: Sorry to interrupt you, but my question is like all this operational and strategic changes are behind us now and have we identified that you know a sweet spot of around 7 and a 1/2 to 30 lakh is the target that will be the segment that will be targeting and we should be we should now be you know, looking to grow in that segment itself and it can give us a growth of 30 to 40% in the AUM this is my, this is my question.

Management: So, you are right on certain things that there's definitely there has been certain ups and downs in last 3-4 years and we have talked certain things and yeah in the early phase of the company and sometimes you do have some learning with you when we started Suvidha, we the we didn't thought when we accounted that it was the community dominated segment who where the cash collection was 100% was cash collection and we were operating cost was too high and so we thought that it will be very difficult to make operating profits out of that and we have to maintain a 90-day cycle. DPT cycle through that segment was difficult, and neither we could yield like these are yields through that segment because either we could target the 26 to 30% kind of yield from those kinds of borrowers. So that was the pilot and we thought that it could will do good, but based on the assessment of the we had a joint venture or through which we were doing it based on their the assessment that the segment is very good, but when we actually did it and there were certain lapses in the on the internally also. So, we thought that as a company we are not, we will only be doing the secured side. And we stopped that. And yes, a lot of effort in terms of time has gone into that product last year and yes, I would say the learnings for last three floors we have, we should be on the far better position and those I would say the ups and downs which we have witnessed will be far lesser going forward from the learnings which we have made in last 3-4 years. We are clarity of thought is far better as compared to what we were previous year; we used to experiment few products and now we are very clear that how we want to go forward.

Management: Just to sum up and just want to answer and giving you and the answer of your question very precisely that yes, that products and strategy is ever evolving process. But right now, what we have, we believe that it's the time to move from the kind of startup kind of culture to the growth phase of the company itself. We are definitely damn sure that onwards the products are ready, everything is ready and we would be doing a good growth the coming years onwards.

Ankit Gupta: Sure sure, that's good to hear. And secondly on the, you know, environment side, you know if you can, if you guys can talk about how is the environment on the ground currently in terms of you know, last year was a pretty challenging front and you know especially on the unsecured and low ticket. Lending side, so how is the environment currently? How has been the improvement there and you know if you can talk about and how do you see the next coming few quarters in terms of this environment, the improvement that we have that we have been hearing from other lenders? Are you guys seeing it and how do you see the next few months or few quarters?

Management: Yeah. I guess the last I think we definitely huge slippage in the MFA unsecured segment. Now I think the companies have also taken few steps and I think that certain customers which were only leveraged the from we are seeing that the companies have also become little conservative and the things should be better going forward and everybody is more cautious in terms of lending to those customers. The aggression has come down and the companies are more prudent at the same time we are seeing that even borrowers are becoming little more prudent. And that will help I would say the serious companies which are doing this business, the earlier few startups and the unsecured segment, they were very aggressive in targeting and were diluting all those parameters just for the sake of increasing the AUM and right now and in last 2-3 quarters, the growth with quality has taken precedence and rather than the only the AUM growth and that should help those companies which are cautious of quality also and the attrition rate has come down. That was also one of the very negative factor which was happening to the industry in last three years.

Ankit Gupta: Sure and lastly on the you know we have seen two rate cuts already in the past few months and few more hopefully should happen [inaudible 50:50]. So how do you see this impacting our cost of borrowing as well as you know the rate at which we lend to our customers?

Management: So, Ankit, we have already seen that all those cases where it was linked with the Repo and even with T-bills, we have seen that our cost of borrowing has come down with .25 basis. Sometimes there is a reset clause in certain borrowings, the reset clause is 3 months, 6 months so, the as and those reset clause will start hitting up, or rates will going down and then further borrowing our leverage has increased as compared to six months back. At that time, the talk was to that the funds are not available, everybody the banks are more cautious towards NBFCs. But that kind of environment is not there as of now and banks are still cautious on MFI's and unsecured that still has that is helping the secured segments. Even banks have to land and for them they are targeting the secure segment and so the in a way that is helping those companies which are into secured a little better place as compared to the MFIs and unsecured companies. So environmental I would say the environment has little bit improved and yes, the last year even the external conditions, in terms of we witness two months were lost in elections and followed by a very hard weather followed by monsoon, so that also disrupted the whole repayment behavior of the hard set of borrowers. Yes. The only concern I have is that the still the lowest rate of 40-50% people, the which is our target audience, we are not having the same kind of growth which we may as a country we are which we are witnessing and with the improved infrastructure, the penetration moving to Tier 2, Tier 3 cities which we are very confident as the more infra and the expressways are reaching and the ability of the Tier 3 and Tier 4 cities to integrate themselves with the larger cities that will help us to grow their income will grow and that will help us in the, those companies which are targeting that segment and so on and overall, I would say the environment is better what it was 6-9 months back.

Ankit Gupta: OK, OK. OK. OK. Thank you. And wish all the best.

Moderator: Thank you. The next question comes from the line of Dhiraj from Roha Asset Managers. Please go ahead.

Dhiraj: Hi, this is Dhiraj from Roha Ventures. So, on the reduction on cost of borrowing that you mentioned about and mix changing in favor of SME again back this year which is a higher yielding vertical. Can we assume more than 15% higher the NII growth because 15% was what you did last year. So, this year the NII growth should be much higher than 15% because of these two factors alone.

Management: Yeah, sometimes some of your the borrowing costs going down a little bit has to be passed on to the borrowers also. We are working on a fixed rate model and though our yields, effective yields on the wholesale is also similar range maybe 100 per bps lower. So, if the we have already seen 14 to 15% growth on many names in this year and at least we should have the same growth and with the SME taking up, we can see 100 to 200 bps more in the coming financial year.

Dhiraj: Yeah. So broadly NII growth should be higher than last year because last year was a consolidation?

Management: It should be. It should be. It should be. It should be.

Dhiraj: Yeah, and what's the average cost of fund right now? On an average?

Management: 11.22. When we say average cost, we include the PF and all that which we pay, we amortize that cost, even the base will be around 10.75 and when we add to the processing cost, we generally normally all those things charge and amortize it over the tenure of the loan. So that is the effective cost which is coming to us and last year, there was a lot of negative carry also, what used to happen the most of the disbursement and the sanction used to happen at the quarter end and sometimes we used to receive 200 crores, 250 crores in a span of seven days and lot of money used to be parked in a short-term liquid funds and FDs so that used to give us a lot of negative carry and I think hopefully that kind of scenario will not be there in this financial year. So that was also one part that I would say certain percentage of names were absorbed. I would say we were hit by that negative carry also.

Dhiraj: OK. And I appreciate that you have been conservative in a tough year and you know all throughout maintaining asset quality in a very pristine manner. But the point of you know being 1.28 times leverage and especially when you think that a lot of products. You mentioned about, you're looking at new products, but where it's secured working capital or secured term loans or financing equipment and machinery for a factory or supply chain finance or secured invoice discounting leads and discounting?

Management: Hello. Hello.

Moderator: Dhiraj?

Dhiraj: Yeah.

Moderator: Dhiraj, can you please repeat your question?

Dhiraj: Yeah. Yeah. Am I audible now?

Management: We have understood your question. Dhiraj ji, one thing is very clear. As well and we are seeing and the size we are very much clear that we don't want to compete with the larger, very big and we have seen or banks when we talk about supply chain between 9 to 11%.

Dhiraj: Allow me to just complete my question. So even in this segment there are needs which are more than 13-14-15-16% depending upon as you mentioned, targeting the right customer in the SME side, so you will not be competing with larger ones and if your cost of fund is 11%, the marginal costing principle is suggesting that even if you have 300-400 basis point more than the cost of funds, why are you under leverage and neglecting growth. So, I agree that and we all appreciate that you have really managed the balance sheet quality of assets pretty well. But even the categories that we talked about are so many new categories which are evolving and where for SME companies or SME kind of self-employed individuals' etcetera, there are revenues which can give you 14 to 16% and you're not going to compete with larger ones. So, in that sphere you may have to just tilt somewhat and balance the equation of being conservative and managing asset quality and also pursue relatively higher growth very gradually across many of these products. I mean that's the kind of maybe step feedback that I was thinking of, you know, just providing as an insight.

Management: Dhiraj ji, your question if you're finished. So, we have already started 1 little prime segment and it will target these areas which we have mentioned and in certain supply chain and all those mostly train this from 9 to 12%. Equipment finance, we do take care within this prime product also, we will be taking care of them with that and equipment finance you are not able to get securitized. You are getting the only the moveable plant and machinery which is coming to you. And which is only a debt trend, and sometimes in case of when you want to want to, I would say you can't specialize that security in case of the customer default. Yes, the price and the product will take care most of those products. The requirements are for borrowers that will be coming in those segments but at the same time we want to increase our penetration, we want to build ourselves the way we have built in the wholesale while targeting a particular class and a particular segment. That will help us to build knowledge and that will be a differentiator as compared to the larger ones. So just fighting on the IRR, we don't want to do into those 9 to 12-13% kind of a segment, yes, with the prime segment opening up, we'll be able to take care of most of the borrowers which we have highlighted but definitely we would like to have a secured asset as a collateral, instead of taking any moveable asset in the immediate scenario, and then we will discuss continuous evolving process, then we will be evolve ourselves and we will open up the equipment financing going forward, yes and then you want to add?

Management: Dhiraj, just want to add on the Rohit's point. The look as a strategy and as a company we have decided to 1st work on the product debt. Then we will start working on the product itself. As present scenario, considering the present scenario, we are finding that there is ample opportunity in LAP market itself where the projects can be categorized into the LRD kind of residential purchase. We have opened these kinds of products for my customer base. We have opened a lower rate of interest. So, we are now focusing on targeting a bigger part of the customer within the areas we are already available. Well, that would be great or increasing a kind of horizontal growth in the terms of product, we would be focusing on the next phase. There is nothing like no, no kind that we are not going to, we are not thinking about expanding our product base itself like the into the machinery loan, kind of build discounting or kind of invoice discounting. Definitely these will increase our kind of volume business, but on the other hand, we believe that it will kill our time as well as the resource as well. So now we are focusing as on date that definitely this kind of segment we would be targeting definitely in the next phase itself and some announcement that we are not committing as of now. We are experimenting with a product. In collaboration with someone, so that will increase our revenue in the terms of fees from the product which you have suggested.

Management: Supply chain, we are we are doing work, we just start and it's at evolving stage where it will not be on our books initially and so we will be experimenting where all of the origination will be done by us with the small fees and little, I would say the IRR will be lesser in with some association with one or two NBFCs. And as we were the originators and due to managing that book and later on, we can add that product to our own book also. So, we will not like to talk too much on that product because still at we have just started it and want to see that phase one or two phases in next 6 months and then after September we will be able to talk more coming on that, yeah.

Dhiraj: No, no good. I think that's helpful. And just that you know eventually we have to improve our ROE and it's even though we may have to sacrifice or compromise on some element of yield factor I think that should be the final, you know, goal.

Management: This year I would say if we are going through an extension is where the numbers start picking up from the different branches. You will see a little more expansion on the SME which means we are little take a little hit on the bottom line, but I would still be compensated in the coming years, but that will start happening. Then we just want to make the listing branches productive and we are already working on the expansion program on the SMB side also.

Dhiraj: Yeah, just taking this this answer from where you left Rohit, how will that it in the bottom line happen if you're expanding your SME book?

Rohit Gupta: Initially, branches take time to stabilize, so I would say 9 months to 12 months. So, branches will always give you a negative bottom line and it's only after that they become break even and they start giving you on the profitability part.

Dhiraj: OK, fine. Thanks. And all the best to you.

Moderator: Thank you. We take the next question from the line of Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: Hi, thanks for the opportunity again, Sir. Sir, on leverage, what is our thought process? We are currently at 1.3 times leverage with a fully secured lending book. So, over the next two years, where do we want this number to be?

Management: So, the leverage I think we have already told you; I think 12-15 months back also, we have kept ourselves that we will leverage 1.5 to 2 times wholesale book and three to four times in initial phase in coming 12th I would say 18 months to 24 months. So, the so leveraging is not an issue, it is only that our growth was not there on the SME, so leverage was not stopping us anywhere. So, you are sitting on the reasonable liquidity for the whole of the period. Our collections were very strong on the wholesale and we told you even some negative carry also hit us in the last financial year. So, leverage is not an issue that we don't want to leverage ourselves. So, and we still have, we very well know that we do have a scope to leverage ourselves and that is also the reason that it is better to leverage in next 12 to 18 - 24 months and our even if we require an aggressive flow of funds, our wholesale will take care to fund our retail and then we can look for equity dilution to reasonable big player at that time, so getting ourselves leverage is not a factor which has been stopping us. It is only that the SME numbers in last years on the parameters which we are building ourselves was not there.

Nirvana Laha: Sure, sure. So, 2.5 times, that's the equity ratio we should be comfortable as in management, right? That's what you're saying?

Management: You can interpret that way. So, SME we said we are comfortable going four times and retail wholesale 1 and half to 2 times and that is also the initial leverage and as we reach the threshold so, we'll be comfortable with the higher leverage and sometimes we have to see what is the industry scenario and how and to what extent the banks are and the lenders are comfortable with.

Nirvana Laha: OK.

Management: And if you see right now, most of the companies are deleveraged, even the larger peer, they are also not leverage even Five Star and SBFC and Capri and all those, they I think they are we are less than two times.

Management: Actually, this is the factor of two things that is equity as well as the debt. So, if we are performing well, we are able to go bring in some good equities then definitely will be coming down in coming years itself. So, the thing is that we are targeting good numbers and the growth, the leverage would be the factor of these two factors itself that the debt and equity and frankly we never had any airline challenge any time of the year or during last 24-36 months or even COVID period and neither we faced any kind of, I would say issues regarding our ability to raise debt which certain MFIs or certain unsecured segment was facing in last six to nine months.

Nirvana Laha: Sure, sure. Thank you. Very helpful. All the best.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now have the conference over to Mr. Rohit Gupta - Managing Director, for his closing comments.

Rohit Gupta: Thanks, Sayam and you and your team for this conference call and with our interaction with our investors and stakeholders, so and we hope that we come out with more positive numbers and better scenario after six months as we meet after September results and so, thank you all. Thank you very much.

Moderator: Thank you. On behalf of the TIL Advisors Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.