JSFB/SEC/2024-25/107

28th October 2024

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051.

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400001.

Sub: Transcript of earnings call for the quarter ended 30th September 2024

Ref: Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligation and Disclosure Requirements), Regulations, 2015

Dear Sir/Madam,

Please find attached transcript of earnings call for the quarter ended 30th September, 2024. The same will also be uploaded in the website of the Bank at www.janabank.com.

You are requested to kindly take the same on your record and oblige.

Thank you
Yours faithfully
For Jana Small Finance Bank Limited

LAKSHMI RAJA NARAYANAMURTHY
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Date: 2024.10.28 19:35:37 +05'30'

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Company Secretary & Compliance Officer

Encl:

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"Jana Small Finance Bank Limited

Q2 & H1 FY25 Earnings Conference Call"

October 21, 2024

MANAGEMENT: **MR. AJAY KANWAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**
MR. SUMIT AGGARWAL – HEAD, MSE, SUPPLY CHAIN & FINANCIAL INSTITUTIONS
MR. GOPAL TRIPATHI – HEAD, TREASURY AND CAPITAL MARKETS
MR. SUDHIR MADHAVAN – HEAD, RETAIL FINANCIAL SERVICES (ASSETS)
MR. RINCOO VACHHA – HEAD, AFFORDABLE HOUSING LOAN AND MICRO HOUSING LOAN
MR. SHRINIVAS MURTY –HEAD, BRANCH BANKING & MARKETING
MR. KRISHNAN RAMAN – EXECUTIVE DIRECTOR AND CHIEF CREDIT & COLLECTIONS OFFICER
MR. ABHILASH SANDUR – CHIEF FINANCIAL OFFICER
MR. TAMAL BANDYOPADHYAY – SENIOR ADVISOR

Moderator: Good day and welcome to Jana Small Finance Bank Q2 & H1 FY25 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone telephone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Chintan Shah from ICICI Securities. Thank you and over to you, sir.

Chintan Shah: Thank you, Tanmaya. Good evening everyone and welcome to the Q2 FY25 Results Conference Call for Jana Small Finance Bank. I would like to thank Jana Small Finance Bank management for giving us the opportunity to host their quarterly earnings call.

We have with us from the management Mr. Ajay Kanwal, Managing Director and Chief Executive Officer along with other members from the senior management. So without further delay, I would now like to hand over the floor to the management. Thank you and over to you, sir.

Ajay Kanwal: Thank you, Chintan and good evening everyone. I would quickly introduce the management who is along with me on this call. So we have Rincoo Vachha who Heads our Affordable Housing Business, Shrinivas who looks after Branch Banking and Marketing, Sudhir Madhavan who looks after our MFI and Gold Business. We have Abhilash who is our CFO and Raman who is our Credit and Collections Head, Sumit Aggarwal who is our MSME and Supply Chain Head. We have Gopal Tripathi, our Treasury Head and Mr. Tamal Bandyopadhyay who is our Senior Advisor. So, that's everybody along with me on the call from Jana and we will be happy to answer your questions later.

So let me start. I am sure many of you, if not all, would have looked at the numbers, which have been uploaded on the websites, both BSE and NSE, as well as with our presentation.

I will talk through the presentation and swiftly move to slide 2. So first and foremost, I must tell you that as we began the Bank in 2018, it was our commitment to turn the bank into a secured bank with 80% of our assets being secured. That journey continues. We also wanted to build a very healthy liability franchise. That strategy and that delivery and execution continues. We also wanted to be an anchor bank for our customers, which means that you should see us as a broad financial services provider. That journey continues.

We obviously are challenged in the MFI business, but that has not changed how we are executing on our core plan. Firstly, let me start with deposits. We have grown 31% year on year and 10% in the first half. Now out of the 10% that we have grown in the first half of 2024, the time deposit growth has been 9% and the CASA growth is 12%. So a very healthy clip, 10% first half, TD at 9% and CASA at 12%.

Our advances year on year has grown 17%. First half is 7%, with secured now becoming 65%. Obviously 7% growth rate is slightly lower than what we would have thought, which is mainly driven by unsecured growth at negative 7%.

Our secured business grows a very strong 16% in the first half. So again, secured business moves very strongly to 16% first half growth. Unsecured business, given the environment and our reason to be conservative and cautious, has grown a negative 7%.

Our capital adequacy continues to be strong at 18.8% with Tier 1 at 17.8%. And very important, quality of deposits leads to an LCR of 261% for the bank. This is as of September. ROA at 1.6% and ROE at 14.5%, slightly muted over first quarter purely because of the provisioning we have done in the second quarter. Gross NPA is at 2.86%. Net NPA at 0.95%. And very importantly, PCR is at 67.2%. So our PCR in the second quarter is higher than the first quarter. And given advice from many of the folks on this call, we've also elevated our secured PCR to a 29%, which was approximately 18% in March. So that is one of the things that we were asked, that would you look at a higher PCR in secured, which we've also done.

Gross NPA is up, which is largely MFI-led. It is still at 2.86%. Net NPA at 0.95% and PCR at 67.2%.

Our profit for the first half, post-tax is INR 267 crore. After giving an additional provision of INR 115 crore to make sure, our net NPA remains below 1%, and we've added a meagre INR 19 crore in our DTA. Finally, if you add the PAT of INR 267 crore to our capital adequacy, it will even strengthen further to 20.3%. So to sum it all, it's been a tough half, but we continue to execute very consistently and strongly on our strategy. And we'll talk more about the MFI business as we come to that particular section.

I am moving to slide 3, the highlight to my mind is really our PAT, along with an NPA of 0.95% and PCR of 67.2%. And like I mentioned earlier, this is after taking INR 115 crore additional provision to make sure that our NPAs are below 1%. You can see from this page, which is on slide 3, that all parameters are functioning well and the bank is on track.

If you move to slide number 4, here again, you will see that our secured book is at 65%. Our NIM is at 7.7%, in spite a drop of 7% in the MFI book. As you know, the MFI book is a high-yielding book. And of course, the delinquency has caused some drag due to interest reversals, but I'm glad to report that NIM continues to be 7.7% with a stable cost of funds at around 8.1%, for the quarter and for H1 FY25 it's about 8%. So we're very steady on our cost of funds. Our secured business is doing very well. As for our MFI business, we do think the individual loan side on the bank, performs very well and we'll talk more about that as we go along. So to sum up the first half, PAT at INR 267 crore, Net NPA at 0.95%, PCR at 67.2%, Secured has now become 65% of our total book, which was at 60% in March. So a healthy growth of 5%. It's grown a bit faster than we imagined to 65% secured because the MFI book has de-grown by 7%. So obviously, that ratio is looking much better.

We'll move to slide 5, which exhibits the national franchise that we have, well spread across 24 states. We have 4.5 million customers, roughly about 24,000 employees. On the right-hand side on page five, you will see the BC contribution, which used to be at 9.9%, it is down to 7.4%. One of the de-growths that we have seen in MFI business for the bank, as well as the increase in gross NPA, is because of our BC network and we will show you the numbers as we go along.

Page six, we have reformatted this page from what it was from last time because we felt that there are too many ratios. So best to give through this format.

So first and very important news is our affordable housing and Micro LAP business, which is led by Rincoo Vachha, has crossed the INR 10,000 crore mark. And affordable housing, which was just trailing the Micro LAP business, has become our largest business on the bank. If you see the LTVs, growth rate, gross NPAs, net NPAs of both the businesses, that's where our primary focus has been and will continue to be. And we are glad to report that it works very, very healthy for us. Our MSME loans have grown 16.5% year-on-year and has grown for the first half at 12.9%. And again, we are happy with the parameters. In the following page, we did talk to you last time that we will show you what is our supply chain versus LAP business. And we will show you the differentiation on the next page. And I must add that this business, given how the economy is growing, how the small manufacturing is doing, we can see a lot of tailwind here. Our NBFC business, which has been always something that we have kept a reasonable proportion of, has grown for the quarter at 3.1% and year-on-year growth at 3%. It shows a slightly elevated growth in the first half because we tend to grow it in the first quarter and then we tend to not grow in the balance three quarters. Our two-wheeler business, and I mentioned it in the last call too, as we expand number of cities in the two-wheeler business, our two-wheeler business will see a naturally high growth rate. So when I spoke to you last time, I did mention that we were in 90 cities going to 120. I must tell everyone that our total number of cities that we are present is roughly about 180. So we have enough and more cities to keep growing and expanding our two-wheeler business. So when you see the growth of the two-wheeler business, it is about us taking the same product to multiple cities. It is not about changing the credit parameters or any other activity, which would result in such a big growth. Of course, not to mention that INR 651 crore which is a two-wheeler business, is not a large number. So percentage is obviously much more pleasing, so to say.

Gold loan has seen a very strong growth. Again, our primary sales channel is our MFI team and while we did see stress at MFI, most of our book, the collection continues to be at the 98% to 99% range. So our collectors are spending time on really encouraging customers to take more gold loans. So you've seen a very healthy growth in gold loans, which is roughly about 80% for the year and 67% for the first half itself. And then loans against FD. We have now given the exact product breakup rather than lumping anything so that we're very clear. Our INR 17,000 crore of the bank asset book is secured in nature.

Our unsecured is essentially microfinance. All graduates of group loans who have got individual loans, whether they have for business or agri purposes. And because there has been obviously stress in the microfinance business, this business has de-grown to 6.5% for the first half. Gross NPA at 4.97% for microfinance, and we'll talk more about it as we go to that page. So that's our book. I think the high point is Affordable Housing & Micro LAP crossing INR 10,000 crore. And the other important piece is the development of supply chain for MSME business, which is doing very well, which I will just share with you on the next page i.e. page seven.

Here if you notice, MSE is broken up into term loans, supply chain and loans covered by guarantee. Loans covered by guarantee also have property backing it up, but this is additionally where we have taken guarantee from CGTMSE. Supply chain has gone from a INR 378 crore to INR 597 crore business. And again, the reason why this business does well is not just because of demand. It is also because as we get new customers and add new geographies, we have barely started the business early last year. And given that, there is enough and more room for us to grow.

We continue to be very diversified geographically, which has been an advantage for us, especially when we want to grow. Also, when there is concentration of portfolio, you know it can cause stress in the environment, and we continue to be taking advantage of our geographical spread. It's been a hard work to get to so many cities and so many geographies, but I must say that the hard work is behind us, and now we are well-established and have a reasonable presence in all the cities. Of course, a lot more room to grow, I must say.

I'm moving to the next slide, which is slide 8. And here, I would like to bring in Sudhir Madhavan. Sudhir Madhavan looks after this business for the last five years, and prior to that, he used to be with Bajaj Finance, and he joined Jana as Head of collections. He did a fantastic job in collections and was promoted to the business head. So, Sudhir, over to you. Sudhir really would like to give his view on what is happening in the MFI business from a Jana lens, and then we'll go into our portfolio. But over to you, Sudhir.

Sudhir Madhavan: Thank you, Ajay. So the last two quarters, we have adopted a very cautious and a wait-and-watch attitude. So, look at the first slide. The big three issues, what we are going to face, is customer leverage, our BC performance and employee attrition.

The next line is to look at breakdown of what you hear in industry. There's a breakdown in batch discipline. This is not very relevant to Jana because from 2017-18, we started migrating our book more towards individual loans. So 50%-60% of my book is now individual loans.

KYC issues, it doesn't bother us much because we are 100% e-KYC, so there is no concept of any fraud coming into that place, so it's not Jana relevant. A lot of actions we have taken in the last two quarters specifically focused on customer leverage. We tightened our norms, which was already very tight.

One thing what we've implemented now is the exposure off us for any customer, whether it's existing to Jana or new to Jana, it cannot be more than INR 50,000. Total exposure for a new-to-bank customer cannot exceed INR 1.25 lakhs, it was initially INR 1.5 lakhs, and for existing, it was INR 2 lakhs, both have gone down to INR 1.25 lakhs.

Total exposure of Jana, I think we should be one of the very few organizations where we look at all the bureaus, including unsecured plus MFI. Yes, we have a certain stress on the BC performance. We have 17 BCs across INR 1,900 crore of book. Two of them are slightly challenged, but well within the limits. 14 of them are doing absolutely fine, fantastic. One of them is challenged in a certain way.

We have a service guarantee with all of them, and this is on disbursals and not on the portfolio. What in last two quarters we have done is we have actually shifted a lot of good collections senior resources to support the BCs. So some of them sit in the BC head offices, some of them actually shifted to their branches to help them to understand collections and their way.

As we moved our senior persons to the BC drive, we can adopt the good practices with them. Plus, we're putting additional guardrails across for BCs so that we restrict their growth, which was very high last year, so we're making sure their growth is controlled.

I'm going to Slide 9 now, employee attrition. We have elevated our employee engagement programs. We do a lot of family connect, calling the families. We do a lot of festival celebrations. Strategically, what we have done, we have actually reduced the account to collector ratio, which was somewhere around 350 to 360 in the month of March. We have actually got it down to 290 to 295.

We have completely improved our compensation program to make sure that it's aligned with the increased difficulty in collections. Plus, now being a bank, we are able to offer a good career path to our people who have three to four years experience in microfinance. They actually moved to two-wheeler. They actually moved to gold loans.

Some of the open items, which is beyond our control, is like even if I have a very high degree of control on the unsecured exposure, post what we give, some other lender comes and gives them a loan, which we can't control much. I know MFIN has introduced new guardrails, but let's see how that works out yet.

Our future strategy is very clear. We will use RFS distribution team to grow more two-wheeler and Gold. Micro LAP would be our business, which we will accelerate more and more. Increased CGTMSE guarantee for micro enterprises as we gradually move towards more and more individual loans. We currently have a book of INR 120 crore. By March end, we should be looking at INR 800 crore to INR 1,000 crore of books, which will be completely under guarantee program. Focusing on existing customer, even closed loan base. BC business would continue, but with a much more stringent guardrails.

Krishnan Raman: This is Raman here, handling credit and collections. I just wanted to recap a few items from what Sudhir had said. I think the first piece is that there is some element of stress in microfinance, but particularly it is coming through BC. In the BC, as Sudhir had said, there are 17 BCs, 14 are behaving absolutely fine. If at all, there is only some slight challenge in three. Out of that, one is a little more challenged. But the key aspect is that my service guarantee is on the disbursed amount, whereas the current portfolio is a lot lower than the disbursed amount.

We're doing a lot of streamlining. We've tightened a lot of credit. Sudhir talked about a few aspects of credit that we had tightened. When I'm going to either a new-to-bank or an existing-to-bank, my off-us exposure should not exceed INR 50,000. My total unsecured customer exposure, we brought it down to INR 1.25 lakhs, irrespective of whether it is existing-to-bank or new-to-bank. So these are really a few key aspects.

And Sudhir has also outlined what we really need to do going forward in terms of the business focusing on CGTMSE. So I just wanted to highlight these are the critical aspects. Thanks, everyone. Back to you, Sudhir.

Sudhir Madhavan: Okay. Let me go to the Slide 10. This gives a snapshot of our microfinance book. As what Ajay said, we actually de-grew by 7%. And year-on-year, if you look at first half to second half, we are actually flat. Strategically, what we have done is the BC book has actually degrown by 11%.

Our book has almost remained flat, but because of the high degree of stress in the BC book, we have made sure that they're focused on collections, and then we grow our book. Our GNPA is at 4.97% and NNPA is at 0.49%. We still focus a lot on digital payments, which is at 25%. Our average ticket size across the book is only 36,000, which I think should be one of the lowest in the industry.

Let me go to Slide 11. This gives a snapshot of the Rs. 9,300 crore book. 60% of the book, as compared to last year, which was 50%, are existing customers who have already had a good track record with us. And this gives us confidence saying that our books will remain stable and have good collections coming in the future. Thanks.

Let me pass it on to Rincoo. Rincoo heads our Micro LAP and Affordable Housing. Rincoo, over to you.

Rincoo Vachha: Thank you, Sudhir. A very good evening to all of you. We are at Slide 12. As we saw at the outset, our Affordable Housing Loan business continues to grow at a robust pace, and so does our Micro LAP business. In the quarter gone by, we have increased our frontline field force by around 16% in anticipation of a sizable scale-up further on for H2, which traditionally is a growth-oriented period for industry as a whole.

Moreover, as Ajay mentioned, our LTV ratios continue to be amongst the best in the industry, with Affordable Housing Loan LTVs at 50% and Micro LAP at 36%. Now, this healthy buffer on LTV continues to augment our Home 360 offerings, wherein we offer multiple products to our customers, with Housing Loan and Micro LAP at the core as an anchor product for the bank.

With upcoming festive season, if we move to Slide 13, we foresee a very good uptick on pre-approved business loans, which we offer to our existing Housing Loan and Micro LAP customers, who have exhibited excellent repayment behavior and discipline, both on us and off us. Now, this will help to support them with their working capital requirement to grow their business for the upcoming festive season.

This quarter, under our Home 360 strategy, if you see our product offering per customer is at 3.7 products. That is, we sell 3.7 products on an average to a Housing Loan or a Micro LAP customer. This includes sustained health insurance penetration, which is not a bundled insurance product, above 90%, and CASA penetration is close to 100%, at 99% to be precise. Incrementally, we have seen average monthly balance per customer grow to INR 26,700 per customer from around INR 20,000 in previous quarters.

On this note, may I invite my colleague, Mr. Shrinivas Murty, who heads our liability business to speak about our achievements on liability front?

Shrinivas Murty: Yes, hi. On the deposit side, we are clearly witnessing excellent growth. We are growing faster than the competition, whereas the industry is growing at 12% on the total deposit. We have grown 31% y-o-y. Similarly, on CASA, industry growth has been at 14% y-o-y. We have grown at 28%, which is double the growth.

For the half year ending September '24, CASA has grown by nearly 12%. Total deposit for us grew by about nearly 10%. So, deposits are clearly growing extremely well. On the CASA ratio, we are seeing stability from 19.7% in the month of March. We are around 20.1% now. Whereas the deposits are growing faster than the assets, the CD ratio has come down from 110% to nearly 100% now, as we speak.

So, deposit growth is higher than the assets for us. Incremental CD ratio is less than 100%. Clearly, deposits are growing well. Cost of deposit is at 8%. In the month of July, we brought down our fixed deposit rates. And similarly, in the month of October, we brought down our saving bank rates, which will help us to bring down the cost of deposits further. 59% of our bulk TDs are non-callable. They offer stability. Similarly, 88% of our bulk TD is one year or above. And the 93% of our RTD is one year and above. All of this is leading to a very high LCR of 261%.

On Slide 14, on the right-hand side, if you see, this tells us the concentration of states. The top three states, which are Karnataka, Maharashtra, and Punjab, from 35%, they are now down to 30%. Similarly, the next four states, UP, Delhi, West Bengal, Tamil Nadu, their share has come down to 30% from 33%. The rest of India is now up from 32% to 41%. What it tells us is that we are able to reduce dependence on few states and increase the new geographies and grow them well. This is clearly aligned with our branch expansion plan. And we are really expanding across and the business is showing a pan-India spread.

The key markets, which are growing, are Bangalore, Delhi, Mumbai, Kolkata, they are growing extremely well. Large centers like Gurgaon, Lucknow, Chandigarh, Indore, they are growing extremely well too.

So, what are the key drivers which are resulting into this growth? So we have continued focus on optimizing our branch network, like I mentioned. We added 22 new branches in the last one year.

We added four new branches in the current financial year with 16 in pipeline. The product innovation and launch of new key segments are also helping us to grow deposits. We launched something called Legend, which is a senior citizen product, which gives us monthly interest for senior citizens.

We launched NRI product. We launched Exclusive Premium. We launched something called Liquid Plus FD. This is a short-term fixed deposit. I'll talk more about it later. We're also improving our productivity through branch sales process. Our per employee deposit is stable at

INR 9.13 crore for the last three quarters. We are also augmenting our digital ecosystem and it is playing very well for us.

Like I mentioned on the Slide 15, this is the spread of branches as per their vintage. We have added 22 branches, which is the first bar that you see. As the vintage of the branches grow, we see an increase in the average deposit, both on CASA as well as on the overall deposits. If you witness, nearly 100 branches have moved from one year to three year bucket to three to four year bucket. Those set of branches will play well for us going forward.

The new product that we've come up with is Liquid Plus FD, which is a short-term innovative FD product, which offers liquidity and a short return. This product we are witnessing extremely good traction. Similarly, Senior Citizen product that we launched that I talked about, Legend, is also showing excellent results. We've acquired nearly 3,000 customers under it with an average ticket size of nearly nine lakhs.

The staff productivity, which is another key driver for us, is also playing very well. We remain one of the highest per-employee business as far as the deposits business is concerned. On the digital front, our mobile app has witnessed 10 lakh downloads with nearly 5 lakh active customers. And on the reviews, which is a large number of reviews, reviews have rated us 4.6. This is primarily because of the easy registration process and easy interface. Therefore, it is leading to higher active users.

We have added new functionalities to our mobile banking app. We've added GST payments, we've added loan EMI payments, we've added tax payments, and we've also introduced what is called reward programs. One can sign on to our mobile app and redeem the rewards.

In the current financial year, we've added nearly 3,000 merchants on QR, about 600 on the sound box. Most of these are active. Our emphasis on debit card is showing well. We have 84% acquired customers who are carded, which is leading to 71% of the base being carded. So, these are the key drivers, and they continue to help us stay on course on our deposit journey and play a catalytic role in our deposit growth.

With this, I hand over to Abhilash, who is our CFO and homegrown. Over to you, Abhilash. Thank you.

Abhilash Sandur: Moving on to the Slide 18, that's what I'm talking about. So, the unsecured business strategy we have adopted of negative growth has led to dip in fees, dip in revenue, and also we have taken additional credit costs as a buffer, additional provisioning. This has led to lower revenue for us and also slightly higher cost-income ratio.

We believe that the peak is behind us. So, extrapolating this, I think it will all normalize over the next two quarters, which is next half. I think the cost-income ratio and the revenues would normalize. So, this is what I can call about.

If I go to the Slide 19, this is clearly visible in terms of disbursement. So last year in unsecured, we did INR 4,000 crore for disbursement. This year, it has gone down to INR 2,975 crore and that had a positive impact which is the growth in secured business, but it had an overall impact on the revenues. In terms of GNPA and NNPA and the asset quality, 67.2% is the PCR for us, and we are holding onto the NNPA below 1%.

And I hand over to Raman with GNPA and NNPA. Thanks.

Krishnan Raman: I'm moving on to slide 20. So, I just wanted to make two-three points here on the slide. First is if I look at my secured NNPA. Actually, the first thing is NNPA, 82% of that is secured. Out of INR 247 crore of NNPA, INR 204 crore (which is 82%) is secured. Second point is my LTV on the secured is at 45%.

The third point I wanted to make is that my PCRs have grown pretty heavily. I just pointed out that last quarter, we were at 18% PCR on secured and we wanted to grow it. We've grown it to 29.7%. Unsecured also has shown an increase in PCR. The third piece is on the BC book. While we are covered 93.4% in terms of PCR, there is also a service guarantee which we haven't really considered in all of this.

So, at the moment, we believe that we are perfectly and in fact more than adequately provided. On the right-hand side, we're talking about the restructured book which has fallen a further 10% compared to the previous quarter. And bulk of it, INR 73 crore out of INR79 crore is secured, which has an LTV of 38%. So, these are the key messages I wanted to pass on slide 20.

On slide 21, again, Ajay talked about an accelerated provisioning of INR 115 crore in his introductory slide. If I adjust that and the recoveries, my recoveries which is reflected in the other income line, my net credit cost is INR 247 crore for the half year, which is at about 1.9%. That is pretty much stable with what we presented in the earlier quarter as well. So, these are really some key messages that I wanted to place on record as far as the GNPA, NNPA, and credit cost is concerned.

And then I'll hand you back to Abhilash.

Abhilash Sandur: Thanks. So, while we have spoken about deposits and advances, one point which is also relevant is the borrowing. So, in the current quarter and in the previous quarter, we have repaid SLTRO borrowings of INR 800 crore at a lower cost. That was at 4%. Even after repaying the low-cost SLTRO borrowings, we have held on to our cost of funds, which is at 8% for the half year.

So that's one key takeaway which I wanted to mention. And we are expecting new sanctions and borrowing limits during this quarter. Probably it will come in end of October or early November from refinance institutions. So that is expected during this month or the early next month, which is at a competitive rate to deposits. Also, it is long-term, which is helping out my ALM because I'm doing a lot of affordable housing and micro-housing, which is at a longer duration assets. So that's one key takeaway which I wanted to mention in slide 22.

I'm moving on to Slide 23, which is on the P&L statement. So key takeaway in this statement in terms of recoveries. So, we have mentioned out, I think there was one request on providing the details of other incomes, which we have provided in this slide. Comparatively, I'm covering the other income part first. The major drop, against last year is from the recoveries, which has come down from INR 80 crore to INR 44 crore. However, the PSL income has grown from INR 42 crore to INR 55 crore.

Processing fee, there's a drop, which is from INR 118 crore to INR 104 crore. This is mainly because of the drop in disbursement in unsecured from INR 4,000 crore to INR 3,000 crore approximately. The insurance commission, we are doing well in terms of insurance.

So, and other part is the other fee, which is basically the liability fees. Other than that, if you look at the provisions and contingencies, seems elevated, against last year first half, which is from INR 343 crore to INR 406 crore. This includes INR 115 crore of additional provisioning for the first half. And in Q2, we have done additional provisioning of INR 61 crore. So, moving on, I'll hand over to Ajay.

Ajay Kanwal: Slide 24. On the guidance piece, I have reiterated the guidance we have given earlier. We will work on this in quarter three and come back. Very importantly for us is to also go through quickly a few things which are more relevant from the bank's perspective, which is on slide 28. Here again, our strengths of being a digitized bank, of having a governance framework, all is bearing out in good stead. Our strategy remains very steady. There are a few things that I would like to add before I close, and it's very important for all of us to take note.

See, first, Abhilash, mentioned about why is unsecured growth in the first half being negative. What kind of challenges it has caused? So, first, of course, as unsecured has come down, there is a drop in fee, there is a drop in revenue, there is elevated collections cost, and there is, of course, an increased provisioning on the unsecured book.

However, I wouldn't extrapolate that for the next two quarters because we don't anticipate a 7% drop in portfolio. So, obviously, fee will get better, revenue will get better, and at the same time, cost income will get better. So, those are three things I must add because we run the risk of taking the quarter and extrapolating ahead.

So, I'm absolutely providing that clarity. I would also like to reiterate what Raman said, which is our credit cost in the unsecured side has seen the peak. So, that is very important for us to take into account as we go ahead. The third thing that you hear from Abhilash, is our recoveries in the first half are down versus year-on-year. This has nothing to do with our recoveries except that all our collection people are more busy trying to make B0, 98%, and 99%. So, obviously, that deserves a lot more manpower to be shifted towards the early buckets, which we have.

Having said that, now that we've had a good quarter of 98%, 99% from MFI, we will be seeing more recoveries come in the second half. So, again, a good reason why we should not assume the first half and second half will be identical. I do think that as a management team, we responded to a stress moment. And our bias has been that we should make sure that our future is very secure. So, our bias in the first half has not been to grow the unsecured group, to make revenue, or to keep cost income low, or any other measure.

Our first half attempt, seeing the strength in the system, is to de-grow, get clear what the environment is really showing to all of us, and then decide to grow, which is why the policy has been conservative, and our strategy has been conservative to that extent.

But I do believe that with this strategy, our credit cost in the second half, our cost income coming back towards late 50s that it used to be, should be things that one can expect, and we will be working towards that. So, that's a few things that I wanted to add based on what some of my colleagues have mentioned. In closing, I just would like to say one simple thing, which is, from a strategy perspective, we have been absolutely on track to deliver a secured bank.

We are continuing to deliver on that strategy. For us, what has happened of stress in the microfinance business, is a small aberration, which we will certainly be able to conquer, and you can see very well that Jana's Loan book reflects a much healthier portfolio. Yes, I do compliment all our BCs, they have done a fabulous job. A few of them did go off track. We are bringing them back, happens to be three out of 70. We do believe in the BC business for sure.

Our liability business is growing very well, and we certainly will make sure that our second half, some of the gaps that has arrived from the stress, gets fully covered. Our secure business, as I mentioned earlier, has grown a 16% clip in the first half alone, and that will continue to see the same solid growth that we've seen in the first half.

With that, I would like to stop here, and I would like to request I-sec to open the floor for questions.

Moderator: Thank you so much, sir. We will now begin the question and answer session The first question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: Yes, thank you for the opportunity. My question on your comment around the second half will be better but if the operating environment remains challenging the MFI space, what gives you confidence to do better compared to the H1 performance, especially in the credit cost, collection of money from the MFI customers, the collection cost and overall income growth because you said the fee and revenue also goes down because of this pressure in the MFI book. So, can you explain the factors which make you confident to deliver that kind of performance in the second half?

Management: Thank you, Manish. So, you know, first half, it has been a reaction to a stress. I think very little chance all of us got to plan. Second, given that the stress was still evolving, it's very difficult to say that is our final response. So, the first bias has been it's an evolving situation. Let's watch it. Let's be very conservative, and we will take our measured step on how to respond to it as we go forward, once we see the full picture.

So, I think which is why if you see a lot of the things and we've done this special two slides, Manish from Sudhir, to tell you how we will respond to the microfinance situation of where we are tightening, how we are tightening. So, a few things I'll tell you why second half will be better. And I think it will be significantly better. First, we will not have a drop in unsecured by 7%. This means revenues will be better, and fee income will be better.

Second, we will not see an elevated provision like we saw in the first half because what is the biggest flow-through possibility they've all flown through. I did mention that you've seen a 98%, 99% collection in the quarter two. So that is the second reason, which is credit costs will be lower, disbursal will be higher, fee will be higher, interest will be higher. And the reason why it will be different is also because, for us to kind of believe that everything will be okay very quickly is not real. So, we have taken time to respond to how we want to rebuild and where we want to tighten, and which is what we are seeing right now, which Abhilash has clearly explained. So that's the second thing.

The third thing, very importantly, like I mentioned, is a lot of our staff did get diverted towards holding early buckets strong because there is no point getting early buckets weak while we collect at the deeper buckets. We obviously see more of our teams now getting focused on the deeper buckets. So deeper buckets will give us a better result, which is going to result into lower credit costs for the second half.

So the second half, credit costs will be certainly a lot lower purely because you won't have so much to provision. Your credit cost is much better. And you can see from the secured book, everything is good. Remember out of my book, 65% is secured. So that's completely a book that is very well managed and we are very confident of it. The important thing, Manish, since you brought it up, and I would like you and everybody else to make sure that please make sure when you do credit cost calculations, kindly use this page, which Raman has referred to, which is Page 21. Because we run the risk of using the wrong credit cost in a calculation, because a lot of the recoveries do come in the P&L line for fully written off accounts. So, we will not see that in the credit cost, but obviously they come through the P&L. So, when we do a credit cost extrapolation, it is best that we use the page number 21. And while you use the recoveries in the credit cost to be minus, you please reduce it from the other income. So that you reduce other income by so much and you reduce the credit cost by so much, it will give you a good chance to extrapolate. So Manish, I'm very confident that our second half will be a lot more different.

And our first half has been absolutely what we think as a team here, something that we have to considerably respond because we do want to make sure that not only do we respond for this year, but we're also well prepared for next year.

Manish Ostwal: So, the second question on the balance sheet side, we saw a borrowing and investment down by INR1,000 crore on quarter-to-quarter basis. So can you explain what has caused to that kind of drop on both line items?

Management: Yes, so very simple. I think Abhilash did mention it. There was an SLTRO, which was given by RBI during COVID period. That was a four-year tenure. The expiry of that happened in July, which is why the drop in borrowings has happened. We have not repaid anything. Nobody has done anything else for that. It's the repayment of RBI, which had to happen. I must also say that given there have been very strong liquidity in the bank, so as we finish our September quarter we have INR 1,400 crore as cash. So we have enough cash on as we have.

So, we haven't tended to borrow also in the last few months. We will be borrowing now because I think the rates are a bit better on the refinance side than they were six months to one year ago. So there is nothing here except that we repaid RBI.

Second, our borrowings will come this quarter. We are expecting from two refinance institutions and our borrowings will be back up. Nothing there, which is something for us to worry about.

All I can tell you is that the borrowing costs from next quarter will be lower than what it is this half, purely because we expect better pricing.

Manish Ostwal: Two small data points. What is the collection efficiency for MFI book during the quarter two versus quarter one and the total slippage for H1 number and quarter two numbers?

Management: So, we are ranging between 98.5% to 98.7%.

Manish Ostwal: Was this quarter one, sir?

Management: Quarter one was around 98.6% to 98.7%. So, it's always between the range of 0.2 basis point here and there. It's always ranged between 98.2% to 98.7%.

Manish Ostwal: And total slippages for H1 and quarter two? H1 FY25, current year.

Management: The total slippages in quarter two for MFI was roughly about 10%, Manish.

Manish Ostwal: That includes the BC book?

Management: And so primary, Manish, the slippage is from the BC book. And if you go back to the slide, I would encourage you to go to that slide because that is a very important slide to get this sorted out from us. So, this is slide number 10, where if you look at everything on our book, which is Jana's book, it is 4.2% gross NPA, net NPA of 0.5%, and 3.5% for Agri Group. It's a BC book. Whereas we have explained, it is with a service guarantee. And the service guarantee is in form of deposits, which the bank holds, and encashes as it goes into NPA. But if you talk of slippage at Jana's end, it will be less than 50% of the BC book. So the percentage that Raman mentioned is largely led by the BC book.

Manish Ostwal: Thank you so much, sir.

Moderator: The next question, the next question is from the line of Shailesh Kanani from Centrum Broking. Please go ahead, sir.

Shailesh Kanani: Thanks for the opportunity. So just wanted to understand the accounting in case of tie-up with the BC. So suppose the BC book size is around INR 100 and the GNPA is INR 10. So how does this FLDG of 4 to 5 work and how much is getting reflected in the books and how the PCR is calculated? Can you just give some idea of the accounting of this?

Management: Yes, so Shailesh, first, let me explain this. There are 17 BCs. 14 of them are nowhere close to the FLDGs or the service guarantees that they have given to the bank. Two are on borderline and one is where it will cross the amount of money given to the bank. Now let me explain how do we take this service guarantee. It is based on disbursals and not portfolio, which is why if you see page number 10, where while the gross NPA is 9.7%, it doesn't mean we are out of pocket because our service guarantee is on disbursal amount and not on outstanding. So we have a lot more money than the current average outstanding of all BCs.

But like I said, we do not see us being out of pocket with any BC except one. Second, very importantly, is all BCs are committed to getting recovery behind them. So full steam ahead, they are all focused on recoveries, which is why if you see their book has now shown a negative growth of 12.7%. And like Sudhir mentioned, wherever they have seen a bit of turnover and because we had obviously a larger workforce who have seen COVID and demonetisation in the past, we have lent them some of our senior collection resources to support them.

So just to answer your question, does the bank anticipate any big challenge out of, if the service guarantee is surpassed, then I'm clarifying that to you that there is only one case where it will be surpassed. We are sure that's not a number which will change our view on the next half. And second is we also know that everyone who is close to the service guarantee provided by them or the one who surpassed it, they're all very committed to making sure that they bring it all within their line because it is a very important P&L item for their businesses also.

Management: Gross NPA remains, whatever is coming through the books, the moment an account becomes 90 DPD is Gross NPA. And then thereafter, you have either the provision or the service guarantee invocation. Together, both of them get deducted to come up with a net NPA number. And the net NPA number for BC book is roughly at about 0.7% and the PCR is at 93.4%.

Management: So Shailesh, you must look at page 10 because the 0.7% net NPA of the BC book with a PCR of 93.4% is stated there. And that will give you a good sense of the service guarantee the bank had. But again, I would also like to add Shailesh, we should not extrapolate first half into second half. I'm not saying everything is perfect. Obviously, we've seen the peak and you can see that in the numbers here.

Shailesh Kanani: Fair enough. I just wanted to understand this includes the cover what we have. So I got an answer for that. That is fine. So again, on this BC book, as you rightly mentioned in your remarks as well at the beginning of the call, where our ATS is one of the lowest in the industry. So just wondering why we have such a high GNPA in this book. Have we done some analysis because quarter on quarter also the quality has kind of gone down. So any thoughts on that in spite of having so low ATS and from your earlier commentary that they are the old partners for the bank. So any color you can draw on that?

Management: So a good question, Shailesh. I think I should have probably covered it, but let me just check. So I really want you to go back Shailesh to this slide which Sudhir presented. Now here in the BC book, one of the BCs under challenge is really the BC who had used CSP points to support them. And there has been obviously a breakdown of communication. There has been a breakdown of operating rhythm between the CSP points and the BC. So our learning really is that BCs using CSP points for collections may not be the best answer.

Now, fortunately this BC does not have his entire book with CSPs, but some geographies where he uses CSPs, he got a bit challenged. We have decided that we will stop CSP points for any BCs to use. They have to use their own stuff. So this is a primary reason he is the most challenged.

So that question from you, Shailesh, is absolutely fair, which is why does an institution where their own book is pretty much reasonable, ATS is low, why is the BC book more challenged?

So one of the reasons of the most challenged BC is the use of CSP points as one of their channels which hasn't worked well. The second is, let's talk of the people who are on borderline.

So very good institutions. We would do more business with them. I did think that going into new geographies led to new people who did not know the processes and certainly if they would have had a lower growth, they would have been less challenged, which is why Sudhir mentioned that we will put guardrails on growth, even if you were a BC.

Now the challenge, obviously if you're a BC and you're small, percentage will look high. So we will obviously modulate to some sensible number, but our takeaway is two. The most challenged one had CSP relationship issues. The two on the borderline had faster growth rate than the rest. And as you can see out of the 17, if you leave these three out, rest are pretty much in the 1.5% to 3.5% ranges of gross NPA, which is well-maintained book.

And that kind of reflects everything on Jana's book also.

Shailesh Kanani: But unfortunately for us, he seems to be little on the bigger side in terms of contribution to the book, right? These three BCs which you're referring to?

Management: Yes, yes. He's one of the larger ones and he's one of the oldest ones. I must say that, all this Shailesh is that you understand. The CSP model, this BC has been practicing even before he became our BC for many years. So it's not a new model he tried with us. But unfortunately in this crisis, again, due to a mix of a few issues, it has not turned out well. So it's not a new model he tried with us. It's a model he's been doing for years. He's been our BC for over four years.

We never had a challenge we got worried about. But somewhere I think in this stress moment, this kind of snapped. So Yes, that's just to give you some background of both this BC as well as what happened.

Shailesh Kanani: So just last question from my side. So any targets for PCR per se, how that we should build up in our models and also on a book keeping side, can you share the gross slippages, recovery write-offs for the quarter?

Management: So Shailesh, one is for your model. I would always expect Jana to have net NPA below 1%. That will be our going in position for every other quarter after this. And whatever is required to be provisioned, we would provide for that. Like I mentioned, Shailesh, you got feedback when we were doing the calls last time around that some of the analysts would like to see our secured PCR go up.

So while we could have declared a higher net profit and cross 100 for our psychological mark, etcetera, we decided that listen, we would not do that. We would actually raise our PCR even on secured to a 29.7% this time. So that's the second piece you should know. We would like to retain that at that levels.

Thirdly, I would not assume the same flow rates as quarter two. I would assume a very low rate because if you look at the BC book, there is only so much more that can flow down. The worst is already behind us. So that's the third piece I would do. On the slippages, again, I would like Raman to quickly work out a slippage which is with BC, non-BC.

And share that with you, but I could do that later because I don't think so that number is ready with him right now. And we will come back to you, Shailesh.

Moderator: The next question is from the line of Kamal Mulchandani from Investec Capital Services.

Kamal Mulchandani: Sir, can you please guide what has been the par zero trends in the MFI loan book for the company?

Management: You're talking of par zero trend in terms of collection ratio? What do you mean by par zero trend? One plus, you mean? One plus bucket, right, Kamal?

Kamal Mulchandani: Yes, sir.

Management: Give us a few seconds. If you have a follow-up question, ask while he gets the data out.

Kamal Mulchandani: So secondly, I wanted to ask that quarter-on-quarter we are seeing increase in GNPA for affordable housing in Micro LAP. So can you please elaborate what has been the reasons for this?

Management: Right. Increase in GNPA for affordable housing is actually in line with what we would expect. So if I look at the, and if I look at secured as a whole, my overall net slippages is somewhere in the region of 2.5% per annum annualized. And that's broadly in line with what we expect for all these secure portfolios put together.

So that's one part. The second part is if I look at my LTV ratio for the GNPA, that's at about 45%. And therefore, the loss that I would expect from this portfolio is going to be very minuscule. So I think these are really the two points I just wanted to highlight.

Management: I just want to add to Raman's one point. You have probably a 20 bps to 30 bps extra gross NPA at this point of time, purely because of slowness of getting the section 13(2), 13(4) and SARFAESI activities organized in the first quarter. We do have a backlog. And I'd mentioned in the last call that we should clear about 60% of that backlog in quarter two, and the balance 40% for the last quarter.

Like we have a lot of cases where we are waiting for repossession orders. Most of the territories have cleared it. We have one or two states where it is still a backlog. Once that is done, you will see a gross NPA, which is slightly lower than where it is today. But other than that, like Raman mentioned, given our slippages where we are, it's hardly a LGD book at all at our end.

We are not seeing any microfinance rub off on our book. So I'm saying this very simply because there is no connectivity we can see, and we are not feeling any challenge coming from a MFI behavior into any of our secured books. Our commonality of customer isn't large. It is something as a strategy we'll do more of now, but that has not been our biggest push in the past.

Kamal Mulchandani: Like that's what I wanted to ask. If the one plus numbers are ready, that would be great.

Management: Okay. Kamal, we will come back to it, which we'll send it across to you.

Moderator: The next question is from the line of Rajiv Pathak from GeeCee Holdings.

Rajiv Pathak: So just to reconfirm, are you saying that in Q2, the stress levels and the credit cost in the unsecured book would have peaked, and Q3 onwards, you will actually see a decline in the stress levels and the credit cost? And second part is, on the secured book, I think it is very heartening to see that we have increased the PCR on the secured book.

But if you were to look at the three main components of this book, the housing, the Micro LAP, and the MSME, there is a quarter-on-quarter increase in the GNPAs. So can you just share some thoughts on what has led to this increase and whether you will see some kind of a trend going into the second half also?

Management: Okay, so thanks, Rajiv. So Rajiv, yes, I think two things will happen in second half. We will not have as much flow into gross NPA as we had in the first half. And if you really look at our slide on microfinance, which is Slide 10, you will see that our BC book is already sitting at a gross NPA level of 9.7%. So there is not much room. And I'll just tell you the peak number roughly was INR 2,500 crore of BC book in March. It is down to INR 1,950 crore.

So a lot of the tougher customers which were on the borderline have already slipped. So that is one simple reason. Our book, if you take what is on Jana sourced and collect book, we pretty much are more or less steady with where we were in the first quarter. So we really don't have any slippage of a serious nature there. So which is why you should expect lesser flow through. And like I mentioned earlier, a lot of our collectors were basically moved to the early buckets to stem the flow.

Now that the flow, like Sudhir mentioned, 98.6% to whatever, closer to 99%. We have more time with our collectors to really work on the recoveries of the deeper buckets. So we should see better credit recoveries. We should see lower credit flows, which means lower demand for provisioning and better recovery. So net numbers will be much more positive. So that's given.

And thirdly, remember, we have not grown unsecured in the first half. We've actually run negative. So I have not added new customers which will give me new NPAs. So while it is not flattering on the first half numbers, because I've obviously lost fee, I've lost revenue, but I do think that that negative growth of first half, 7% of unsecured, will add a positive to the credit cost of second half.

And we certainly are very sure of now what growth we want to build, because now we are certain that this growth will be something that will be good credit even as we go forward. Because Rajiv, as you know, if we try and grow the way out of the problem, we can probably solve today's problem, but we'll create tomorrow's bigger problem.

Now on the secured book, I said, see, listen, PCR, we happily put it there because we wanted to make sure that nobody should have any doubt that we are very committed to make sure that we are well provided. If provided slightly extra is the way we look at it. So right now I'm referring to Slide 20.

The PCR is increased to roughly 30% of secured. 88.8% on Jana's book. And 93.4% of BC books. So we've got very good PCR coverage and I think very well balanced now. So PCR in the same way we should anticipate. I really don't have a different answer to give you on gross-NPA for secured, except that like Raman mentioned, if you actually model it and you look at gross NPA, net NPA LTVs, your LGD will come to less than 0.1%.

And you just have a look, just multiply it and you see it. We have not even use a provision here. Many of the analysts said last time that other housing companies have given higher PCR. Why don't you also look at it? We've actually put PCR here. Our increase of PCR is not any reflection of what we anticipate as a loss.

I just want to make sure that I clarify that. The one thing I did mention and I said this in the last time also, first quarter of the Section 13(2), 13(4) SARFAESI it was all delayed. Maybe because of elections, there is not the machinery which is supposed to give orders or work with us, whether it is the tehsildars or the law enforcement. Everybody is busy with elections. I did mention last time also, It will probably solve 60% of that backlog in Q2 and the balance 40 in Q3 and which is what we will do. So you will see gross NPA getting better.

There is no specific worry on secured, Rajeev. We have a good scorecard. We have a new version of that scorecard and we are seeing good growth, as you can see in our business. So all very steady, Rajiv.

Rajiv Pathak: That point is well taken. In fact, your housing say, gross NPA is 1.2%, Micro LAP is 2.2% and MSME is 2.4%. It is kind of well below what we have seen in the other guys in the industry. So my point was that since we are already better off within these three sub segments in terms of the gross NPA, this should still be maintained. You will still be clocking better than industry averages in this sub segment, right?

Management: Absolutely. I would say that you should expect us to remain here or get better in second half.

Rajiv Pathak: Okay.

Management: That's what I was trying to say, Rajiv, because we have some backlog to clear. We are fully focused on it and at least our sense is that from here it should remain steady at best get 20 bps better on gross NPA. That's what I can expect. And like I want to repeat for unsecured because that is the most important thing which should be like a cause for concern. Don't extrapolate unsecured, either revenue or cost income.

But also realize that as a management team, we have to make sure that we have to convert to a universal bank next year. We have to have net NPA below 1%. We have to have gross NPA below 3 and we would not chance one quarter numbers to make them look nice, but then put the whole next year at risk. So we rather felt that not growing, watching, getting clarity in our minds of what's happening is more important. And then once we are sure in our minds what has happened, then we'll respond. That is how we have seen it which is why we're very happy telling you that second half will be different.

Rajiv Pathak: Just one data keeping question. How much would have been the interest reversals in this quarter because of the slippages?

Management: Rajiv, interest in suspense our RBI norms. Therefore whatever goes into NPA, the entire money is reversed. I don't have the number offhand with me, you asking for a rupee value, right?

Rajiv Pathak: Yes a rupee value, absolutely.

Management: I don't have it.

Rajiv Pathak: No problem, I'll take it on later.

Management: Okay, Rajiv, thanks.

Rajiv Pathak: Wish you all the best.

Management: I'm noting down these questions so that next time we are more prepared for this.

Rajiv Pathak: Thanks a lot and wish you all the best.

Management: Thanks, Rajiv.

Moderator: Thank you so much. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead, sir.

Ashlesh Sonje: Hi team, good evening. Couple of questions. Firstly, on the MFI book, you have said the slippages are roughly 10%. And if I go by Slide number 10, where the overall book is roughly INR 9,300 crore, does that mean a roughly slippage of about INR 230 crore assuming the 10% number was annualized. Is that fair?

Management: INR 230 crore is approximately right.

Management: Okay. Ashlesh, the thing that I've asked Raman to do is to break this into BC, Non-BC that will kind of solve the problem. That will be a good feature to how to measure the two.

Ashlesh Sonje: And secondly you mentioned that the gold loan business, one of the sales channels for that business is your MFI customer base. Can you share a rough number as to what is the proportion of your gold loan customers who would be either an existing or an erstwhile MFI customer a rough number?

Management: So if we were to hazard a guess, we can tell you existing customers so that will probably be about 15% at best. But what is our old MFI customer, very difficult to say. But if you ask me an active customer base right now, we'll be an MFI customer of 15%.

Ashlesh Sonje: Understood. Perfect. And just to confirm what you said, you're saying that while there are challenges on the unsecured piece, there is no rub off on the secured segment at least for now, right?

Management: Absolutely. And we heard Rajiv before you. There is no challenge on the secured piece which is why if you see we have grown at half on half growth is just 16.9% in affordable housing, 8% Micro LAP. So no real challenge there. And we have not seen any rub off because we don't have a large proportion of MFI customers which are based, our average ticket size is Rs. 6.5 lakhs for Micro LAP. So there is not a high proportion of micro finance segment customers. There is a small proportion, but nothing challenging.

We had also done some study earlier where we found that existing customers of MFI actually behave very well when they borrow in Micro LAP. Even though it is a small percentage that we had, we always felt comfortable with that. And that's mainly because once we're able to collect from them an unsecured loan of Rs. 40,000 to Rs. 50,000, then doing a secured loan Rs. 1.5 lakhs to Rs. 2 lakhs is not such a big issue.

So I would like you to be very sure from what we have said, we don't see any challenges on secured one and unsecured we will not see more flow throughs because larger flow throughs were in the BC book where the real elephant has passed.

Moderator: The next question is from the line of Yash Mehta from Art Ventures.

Yash Mehta: Sir, I wanted to ask that on this industry level, for how long do you expect the stress in the micro finance sector to continue or when do you expect the revival in the micro finance sector?

Management: Here is the answer that I think it will be dependent on player-to-player. Average ticket size will be a big determinant of how much you have leveraged to your customer. The geographies you have presented will be another determinant because if there are too many players and your customer is leveraged quite highly, then the problem will be worse. I think people who will try to grow out of this problem by disbursing early may find that this may come to bite them later. So that would be the third piece I would think would be a differentiator.

So those are my three big reasons of saying it is very difficult to say everybody will look similar and I think people will look extreme and I think you will find different players at different points giving their challenges because their responses will be different. Like we do know that there will be institutions who would have grown in the first quarter and the second quarter while you have degrown so our answers will be different.

So that is what I'm saying. I don't have a straight answer depending on the institution and the strategy they take to resolve the issue. I think the question which is important to all of us and certainly it is to us is in what business model is the MFI business looking at. And I think that is a bigger question because frankly, as you have seen in the past using leverage to grow and growing your institution is not the answer.

There is no hard guardrail that if you lend a small amount, somebody else will lend on top, what will you do? There is no good answer also there. So I think becoming more conservative in the MFI business both in its growth and what you wish to do is important. And that will mean that all of us should, at least, at Jana we think our MFI business contribution will be more guarded in the future also.

While we always had a plan to get to 80% secured, our mind is to get there faster now. Because I do think there will be a bit of a question of the model which is okay even if this stress is over, what next? And we can't go back to the same model because this model causes stress, so then what is the next model? How do all of us as responsible lenders behave and will we get the behavior from all the rest of us. May not be an easy answer right now, it's not so obvious to us. So our bias is listen we were anticipating to become a 67% to 68% secured by the end of the year. We'll probably aim between a 68% and a 70% now.

Yash Mehta: Okay. And sir, one more question. Sir, will you be able to grow the advances by 20% in the second half or what kind of growth rate do you expect in the second half for advances?

Management: So if you look at our first half, our first half is very clear. We were 16% secured growth, 7% negative, unsecured.

So composite was 7%, but unsecured grew minus 7%, secured grew plus 16. Now if we make sure our unsecured is at 0% growth. I'm just being conservative, I'm not saying it will be zero and secured growth by 16%. I think we will be closer to the number you would anticipate. By chance if secured growth 5% in the second half and unsecured continues to grow at the first half, then you can look at the number. I can only add that first quarter in all our banks is not the strongest quarter for disbursements. It is normally Q4, which is the peak quarter.

And Q3 is always a very good quarter. So I would think that our growth rate in second half on asset side will kind of cover the gap of the 20% growth in asset business that we would like to do.

Management: Thank you sir. And 16% growth on a 70% of the book is about 11%, 12%. Add that to the 7% you're already reached 20%

Yash Mehta: Thank you very much, sir.

Moderator: The next question is from the line of Gautam Jain from GCJ Financial. Please go ahead, sir.

Gautam Jain: Yes. Thanks for giving opportunity. Good evening, everyone. A couple of questions. First is, can I get the yield of secured business and unsecured business, average yield?

Management: NIM right?

Gautam Jain: Average portfolio yield.

Management: One sec, Gautam. First is, Gautam, thank you for asking the question and coming to this call. I will ask the CFO to give you the range of yields for both secured and unsecured. Do you have another question which I can answer in the meantime?

Gautam Jain: Yes. Also, can I get the stage 2 numbers for Q1 and Q2 of this year?

Management: Gautam, third question?

Gautam Jain: Third question would be, do you think there is a risk to guidance we have given? Because if I take first half and numbers are quite low compared to what we have guided for in terms of PBT? So, do you think we can, fill that gap in second half and meet our guidance we have given 30% to 40% in the PBT level growth?

Management: So, among the guidance things, AUM growth of 20%, I think is not a risk. It is something that I do think we will hit in second half. The positive growth of 20%, given that the first half is more closer to 10%, I think is something that we will certainly do. I think the PAT growth is what we will watch, which we will get a good sense of in this quarter, which is largely to do with the credit cost that we have in our mind, as well as unsecured, a portion of the growth coming back, which we will certainly see how the response is. I must tell you that in the first 21 days in October, it looks encouraging. So, we'll certainly have a look at that. I think it's fair to say the 40% may not be a possibility now. More closer, we will be fighting the 30% answer, is how I look at it.

Gautam Jain: And the last question is, if I look at your PPOP sequential from, INR 355 crore to INR 298 crore, so roughly we have a decline of around INR 57 crore to INR 58 crores sequentially from Q1 to Q2. And that's mostly because of dropping net interest income. And again, because of high proportion of secured book. So, just a question which is coming to my mind, that if we continue to increase our secured book, do you think same rate of decline in yield will come, and that will lead to, again very, very marginal growth in operating profit y-o-y sequential?

Management: So, Gautam, just to clarify, so the PPOP drop, you'll have to consider the sale of PSL, which we did. We earned INR 40 crore in quarter one. And this quarter, we have earned only INR 10 crore out of that. So that is the impacting factor for the PPOP.

Management: So, Gautam, here it is. The real big change in the first half is negative 7% in the unsecured book. My rough estimate of revenue loss it has caused, if I add that with some interest and sustenance high-level estimation, it should be between INR 100 crore to INR 120 crore. That is the primary reason of change. Now, even if the second half gets back 3% or 4% of the 7% negative, we will be back to normal. I don't think so our secured book is causing any change in the mixed causing problem. It is more the negative growth in unsecured.

And you can do a quick number, INR 10,000 crore minus INR 9,300 crore with a yield of 19.9%, if I remember well. That will give you the number. Slowness disbursement will give you the second number. Because lower disbursement means, of course, less revenue and less fees. So, I want us to be very clear that once we don't grow secured aggressively, just grow enough, we will be recovering a lot of the gap in revenues, which will obviously make cost-income look better, revenues will look better, people will look better.

But, Gautam, we didn't want to do that in the first half, because we didn't want to go in a very environment which is unclear of what is the depth of the issue that is surrounding us. And we wanted to make sure that before we take and decide where we are going, we get clarity on that. So, yes, that is the only reason I would be worried about.

So, when I'm calculating second half, I will build back some unsecured growth. And you will find a much better number across the board, whether it's cost-income, it is etcetera. The other piece I must tell you that on credit cost, you all must use our Slide, because if you use any other number, then we will always have a reconciliation issue amongst us.

Because the recoveries we do, which goes to the fee line for the fully provisioned book, we've missed that. And then we have an elevated cost, which we should, cost of credit we should avoid. So, that's my only other request, Gautam.

Gautam Jain: So, we're expecting stage two numbers, Q1 and Q2 and the yield…

Management: Let me give you a yield first.

Management: Sorry. Gautamji, one minute. Let's do the next question if any.

Gautam Jain: No, the cost of fund in this quarter is 8.1. Don't you think this is much higher than even compared to our peers? Do you think still has room to go upwards? This is the peak cost of funding which depends on here?

Management: Yes, so good point. Yes, I think it is higher than our peers. And the reason it is high is because our LCR is at 261%. And that is also higher than our peers. Industry average is 130%. Our peer group is in the 100% to 150% range of LCR. We are at 261%, Gautam, and that causes obviously a higher cost because we would like that we have a large portion of our deposits non-callable.

And certainly given last year environment where, and some of this year, where the talk of the town is the growth of deposits in banking, we wanted to make sure that we do have a very solid liability book under any circumstance. So conscious strategy. Would we like to reduce our LCR and hence our costs? Slowly over the next 6 months as the situation eases, we will do it. But you must see that Slide and I would, Gautam, you must have a look at it. It is Slide number 14.

And the LCR of all the peer groups that you're comparing also in the public domain, you must have a look at it. So conscious strategy of paying the extra 20 to 30 basis points to buy certainty in an environment where deposit growth rate in the industry is challenged. We aren't challenged. We are doing very well, but we want to make sure that we have a bit more strength in our book, certainly on the deposit. So, I would say that our LCR at 260% is roughly two times the peer group that we talk of.

Gautam Jain: So you think, Ajay that Q3 will be peak quarter in terms of gross NPA and then it will fall down from that level?

Management: I think, Gautam, like I said, we are on 21 days of October. I mentioned to Rajiv earlier, secured, nothing that disturbs our thinking. Unsecured, you take the biggest flow through is BCs. The INR 2,500 crore book is down to INR 1,900 crore. So the worst is kind of flowing through already. I can see all the BCs very focused on collections. So all credit to them. And I must say that they are very well coordinated.

So fair to say that yes, Q3 will be lower credit cost for sure from Q2. But I think it's less about the rupee value, Gautam. It's because the flows are lower. It is also giving us confidence then to start disbursement. Because for a business which is having a lot of slippages, then to focus on disbursements may not be the healthiest answer. But which is why we feel that this quarter the book will grow.

Credit cost will be lower. Which means revenue will be higher. Interest in sustenance will be lower. Recoveries will be higher for sure in Q3. So we should see a much better performance. Which is why I said with a deposit of 20% growth rate, yes. Asset growth rate of 20%, yes. PAT, I would still fight for the lower rate of 30%. Because we had indicated 30% to 40%. We will certainly be focused on getting that right.

Moderator: Thank you.

Management: I do want to respond to Gautam. Gautam, if you take my MSME, Home Loan and Micro LAP book, the yield is 13.41% between the three. And I mentioned earlier the yield on the unsecured book which is largely microfinance minus the payout to BCs because they have a portion of the revenue is roughly about 19.99%. I am not adding, you know the vehicle loan, I am not giving you, I think your question was more around our top three businesses of Home Loan, LAP and MSME. What is the yield that the bank gets? That's 13.4%.

Moderator: Thank you, sir. Ladies and gentlemen, due to time constraints, that was the last question. I would now like to hand the conference over to the MD & CEO, Mr. Ajay Kanwal for closing comments.

Ajay Kanwal: Thank you so much. So, listen, in closing, I just would like to say a few very simple things. This small bump in the road doesn't change our strategy. Our strategy always has been going a secured business and if anything, this 6 months has again proven that we have been on the right track as a strategy for the last 6.5 years. Fortunately, we have the product, we have the geographies, we have the people going secured. So, I must say that we are fine here.

I must add that in our unsecured, the peak is over. We will get better in Q3, which will include us growing the book, which will include lower credit costs and will include more recoveries. All three will happen because that is the nature of the beast. And we will remain always focused on making sure that our book is ready for application of a universal bank next year after we finish our audit.

I am sure that this half was more unexpected than we thought. But we have decided that we will use this moment to really do the right thing and not really focus on how to make this quarter's profit look better.

With that, thank you so much and thanks for coming for this call. And hope to catch you on the next call when we declare our December numbers. Thank you so much.

Moderator: Thank you so much, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.