



31<sup>st</sup> July, 2025

**National Stock Exchange of India Limited,**  
Exchange Plaza, Plot No. C/1, G Block,  
Bandra-Kurla Complex,  
Bandra (East), Mumbai – 400051.  
NSE Symbol: SBFC

**BSE Limited,**  
Phiroze Jeejeebhoy Towers,  
21<sup>st</sup> Floor, Dalal Street,  
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BSE Equity Scrip Code: 543959

**Sub: Transcript of Earnings Conference Call**

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings Conference Call which was held on Saturday, 26<sup>th</sup> July, 2025.

The transcript of the Earnings Conference Call is also being uploaded on the website of the Company at <https://www.sbfc.com/investors> under the section 'Investor Presentation – Call Transcripts'.

Kindly take the same on your records.

Thanking you,

Yours faithfully,  
For **SBFC Finance Limited**



Namrata Sajnani  
Company Secretary & Chief Compliance Officer

**SBFC Finance Limited**

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**“SBFC Finance Limited  
Q1 FY '26 Earnings Conference Call”**

**July 26, 2025**



**MANAGEMENT:** **MR. ASEEM DHURU – MD & CEO**  
**MR. MAHESH DAYANI – EXECUTIVE DIRECTOR**  
**MR. NARAYAN BARASIA – CHIEF FINANCE OFFICER**  
**MR. SANKET AGRAWAL – CHIEF STRATEGY OFFICER**  
**MR. RAJIV THAKKER – CHIEF RISK OFFICER**

**MODERATOR:** **MR. RENISH – ICICI SECURITIES LIMITED**

**Moderator:**

Ladies and gentlemen, good day, and welcome to the SBFC Finance Limited Q1 FY '26 Earnings Conference Call. As a reminder, all participant line will be in listen only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Renish from ICICI Securities. Thank you, and over to you, sir.

**Renish:**

Thank you, Shruti. Good afternoon everyone, and welcome to SBFC Finance Q1 FY '26 Earnings Call. On behalf of ICICI Securities, I would like to thank SBFC management team for giving us the opportunity to host this call.

Today, we have with us the entire top management team of SBFC represented by Mr. Aseem Dhru, Managing Director and CEO; Mr. Mahesh Dayani, Executive Director; Mr. Narayan Barasia, CFO; Mr. Sanket Agrawal, Chief Strategy Officer; and Mr. Rajiv Thakker, Chief Risk Officer.

I will now hand over the call to Mr. Aseem for his opening remarks, and then we'll open the floor for Q&A. Over to you, sir.

**Aseem Dhru:**

Thank you, Renish. So good afternoon, ladies and gentlemen, and thank you for taking the time out to be on our earnings call. For those listening to this call, it's just a number, INR 101 crores of profit after tax this quarter. But for all of us on this side of the call, it is the validation of a dream coming true.

A number that sat on our Excel sheets, as we submitted our projections to investors, banks. As you know, every number is achievable on Excel, but to see it actually on a quarterly P&L, our heart is filled with gratitude. It is a culmination of human effort, the trust of our investors and lenders and divine grace.

I still remember how it felt to see INR 100 crores of profit in a year, then in half year and now in a quarter. On a long journey to infinity, it's reassuring to see milestones go by. At least you know you are well on your path and headed in the right direction.

If you look at the economy right now, it tells us that there are 4 good things that have been enablers to what tailwinds we are seeing. One is that there has been extremely good monsoons. I mean, if you see the last almost 2 to 3 years, it's been a continuous good cycle of both Rabi and Kharif and even this time, the Kharif sowing has been very good. It's been a slightly early onset of monsoons. So we have had good monsoons. No income tax on income up to INR 12 lakhs, reduction in borrowing rates and falling inflation. These are enablers which are increasing disposable income.

On the other side, there are headwinds of stagnating income, job creation falling, both are leading to weak urban consumption. Banks, IT Services, the large employers are in a cost of mode and educated unemployment is a concerning trend.

And it is not just that this is a trend only in India. Across the world, educated unemployment is a huge trend. Reasons are different - Somewhere it is because of AI, somewhere it is because of a slowing economy, somewhere it is because of uncertainty on tariffs. Reasons are different, but everywhere, this is a trend that one sees. So we have a situation that while rural consumption is showing growth, the urban ones are accelerating. I would venture to say that India is growing outside of its metros.

In the last quarter, I was on the road through states of Karnataka, Andhra, Telangana, Maharashtra, Uttar Pradesh, Bihar and can validate that semi-urban and rural does seem to be doing better than urban. That's where the government focus was and it should come as no surprise. But due to low purchasing power of these customers compared to the urban ones, the growth in sales of all discretionary consumption companies has been anemic.

So now if you look at it, the weak consumption plus poor private investment, plus maxed out government investment and spends, plus the rising imports, plus uncertainty on exports with the current drama around tariff is a drag on our GDP growth.

If you look at the current GDP growth number at 7.4%, the last print that we saw, there's been a slowdown in private consumption by 2% over last quarter and private consumption is about 60% of our GDP. So there is a slowdown about 2% over last quarter.

Exports are down by 4%. But investments are sharply up 9%. So government seems to have done a lot of spending in the last quarter. Global growth and shifting wins, thanks to AI, is casting a long shadow on our services export, especially in tech.

The monetary policy that was tightened by RBI by 250 basis points increase, plus liquidity was kept tight. The objective of such a policy is to slow down growth, I mean that is exactly what this policy is aimed to do, because, I mean, to slow down inflation, you want to slow down growth, and both have been achieved.

Now we are in an easing cycle. Sales -- I mean if you look at the economy on a narrow basis, sales on online e-commerce websites, plus D2C websites, quick commerce, food and medicine delivery apps, organized retail stores from groceries, electronics, clothes, spectacles, medicine, jewellery are taking business away from the neighbourhood Solanki Chemist, Siyaram General Provision Store, Kantabai vegetable vendor, Shantaram fruit vendor, some fish stall, A-1 Chicken center, street fast food retail shops, Mahalakshmi Jewellers and their ilk.

So Wall Street and Dalal Street are eating real street's lunch in urban markets. We could see this coming, when we were setting up SBFC, we could see the trend coming and we decided from the start to focus on small businesses in small towns and stay away from metros because this was the concern. It is playing out what we had envisaged.

The taps of credit were turned in a risk on mode, fuelling the bottom of the pyramid growth until RBI rightly saw bubble forming and pricked unsecured and microfinance lending. As lenders recoiled in a cautious mode, readjusting their risk models, the velocity of money dropped and this always has unintended consequences impinging on other borrowers, who are getting their money from these.

We saw political risk play out in Karnataka, where the ordinance, which had nothing to do with us, brought our collection numbers down sharply in the last quarter of the last fiscal. And while damage takes a quarter, its repair takes away the other 4. NBFCs have moved from a go-go demand and restrained supply of money with rising rates till FY '24 to the supply taps opening up and costs dropping, but a more restrained demand.

The need for finance has gone up but the demand defined as need plus ability to pay the EMI has reduced. A mixture of tightening credit that we did in February '24 and a stretched borrower on the ground has increased our rejection rates by 10%.

We are building an institution and any financial institution needs 3 things: governance and profitability at scale. Storms and earthquakes will come, it is our job to build the firm anti-fragile. We have signalled last April, and if you see all my calls since last April, we were seeing incipient stress due to overleverage of individual balance sheets.

Lending near the bottom of the pyramid has always had this pattern that for a long time, things hold, and then an event like the one we saw in Karnataka in quarter 4 of last fiscal kind of shakes the tree. These customers, once they move forward, it takes 4 quarters to repair the damage of 1 quarter. We are cognizant that rewards of a high yield do not come without attendant risk and to that extent, we must fortify our balance sheet over profit and loss account.

So we are at all points of time, and that has been our strategy from day one that the balance sheet has to be protected, profit and loss account can wait. If you recollect the first quarter since our listing 2 years ago, we have stopped accruing interest on NPAs, and we have been raising our PCR to the double of regulatory minimum.

As recently as last quarter, we increased our PCR to the higher end of the mid-40s. We also sit in almost 2x more liquidity than the regulatory minimum. These are price we will happily pay for a good night's sleep.

Considering the current environment, we will be increasing provisioning, which will increase our credit cost going forward. There are 4 tailwinds and 1 headwind where we stand. Cost of credit is a headwind, we will battle, but the tailwinds we have are: one, the regulatory risks have moderated; two, liquidity flow is ample; three, the cost of incremental funding is dropping much faster, while the transmission through MCLR usually takes its time to find its way down to us, but the incremental funding is certainly dropping; and four, cost of operations will likely continue its downward trajectory around our guided path. This will enable us to be on a continued path of profitability and on track to deliver the ROE we had built SBFC for.

Right now, at a debt-equity of just 1.87x and a cost-to-income ratio of 39%, we have delivered an ROE of 13.5%. We are targeting business as usual growth of our AUM by a 5% to 7% quarter-on-quarter growth. We are on track for a 50 basis point reduction in cost of operations down the year. Our cost of credit that may inch up by about 15 to 20 basis points from here. On growth, profitability and ROE, we are on our guided path.

We thank each one of you for the faith that you repose in us. We are very happy now how far we have come, but as Dhirubhai Ambani once said, our dreams have to be bigger, our ambitions higher, our commitment deeper and our efforts greater.

With that, I hand over the call to Narayan to take us through a little bit more about the company numbers.

**Narayan Barasia:**

Thank you, Aseem. Good evening, investors. So our AUM as of June '25 is INR 9,351 crores, with a growth of 30% on a Y-o-Y basis, 7% on a Q-o-Q basis and with our book secured by properties and gold. During the quarter, we added 10 branches with the total branch at 215 as of June '25.

In terms of yield spreads and opex, the yields and spreads both saw a marginal rise during the quarter. The yields improved by 11 bps over the quarter, the cost of borrowing came down by 3 bps over the quarter, thereby increasing the spread by 14 bps during the quarter. The yield as of now for the quarter is 17.99%, with a spread of 8.67% for the quarter.

Our borrowing costs also reduced by 3 bps during the quarter, which is at 9.32% for the quarter. Our opex also reduced by 3 bps during the quarter in spite of increments, et cetera, and is at 4.59% for the quarter. Opex improvement is 25 bps from Q1 of the previous financial year due to operating leverage. This is in spite of our consistent increase in branch network which we are doing over a period of time.

In terms of asset quality, our GNPA is range bound during the quarter to 2.78%, with PCR at 44.4%. Our credit cost is 1.11% for the quarter, which is in line with our guidance.

In terms of capital and return ratios, our capital adequacy remains strong at 34.3%, with a tangible net worth of INR 3,039 crores as of June '25. Our return on average AUM for the quarter is 4.5%, with a return on average tangible equity, improving to 13.53%. The PAT for the quarter reported is INR 101 crores with a Y-o-Y growth of 28% and Q-o-Q growth of 7%.

With this, we'll open the floor for further questions and answers.

**Sanket Agrawal:**

Yes, we open the floor for questions and answers, please.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Raghav from Ambit Capital.

**Raghav:**

I have a few questions. One is when I look at the business per branch or per employee, that's been increasing consistently for last 3-4 quarters, yet when I look at the opex to assets side, that's down only 6 bps Y-o-Y and I think that's mainly because of the other opex line item, which is going up. So what is driving that? Where will this other opex line item settle? And when should you start seeing meaningful scale economies? Yes, so that's my first question.

Should I ask my other questions also? Or should we take one by one?

**Mahesh Dayani:**

No, I think we'll answer your question. So I think you rightly pointed out that yes, the productivity at a branch or at an employee level is gradually inching up. But what's also happening is that we've been consistently adding these branches. So if you look at our entire distribution network, you'll always find close to around 15% to 20%-odd of our branches, which are less than 12 months. And what we'd like to do is that we'd like to front-load a lot of these new branches in the first half of the year.

So what we've been guiding is that you might see probably an elevated cost upfront in the initial quarter, but on an annualized basis, we feel that the overall cost reduction is going to be 50 basis points for the full year. This is what we had guided last year and that's what we had achieved, and our guidance remains unchanged for the current year as well.

**Raghav:** Understood. And one more question. See, you gave your volume number, right, for the MSME bit and then when I look at that -- when I divide that by employees, I'm able to get a high productivity number, that's inching close to where you were before you called out stress, I think, in April 2024, right, and then you said you've tightened your underwriting rejection rates are 10% higher. So what I want to understand is, despite the rejection rates still being 10% higher, you're getting back to older levels of productivity levels. Is that the right way to understand this?

**Mahesh Dayani:** That's one right way to understand. The other point that I'd just like to add is that the volume number that you see is largely related to the ME business, it does not include gold, whereas you are taking the total employees, which are mentioned probably in the second or the third executive summary slide. So if you were to add both, probably you will have a much favorable outcome than what you're currently getting.

**Raghav:** Understood. Third question is what has led to this higher yield on a quarter-on-quarter basis? Why has that happened?

**Mahesh Dayani:** So I think our gold business as we are beginning to add new branches, most of these branches are having gold. And the increase in yields are largely on account of gold. The ME business has largely remained stable. So most of the increases that you see in the yields are on account of gold.

**Raghav:** But see, when I look at Q-on-Q AUM accretion, right, it's pretty similar in both, in the sense that the ME business is around 7%, and then even the gold business is up 7% quarter-on-quarter.

**Mahesh Dayani:** Correct. But -- so let me put it the other way. So you have gold, which is contributing close to around 13%, 14% on your total portfolio, and if the yield variance is close to around say, 3% to 4% between ME and gold, that's where the majority of the variants come.

**Raghav:** Understood. Sure, sure. Fair enough. Do I have time for one more question?

**Sanket Agrawal:** Yes, go on, please.

**Raghav:** Sure. So see, you partly alluded to this thing that the ability to repay EMI has reduced a bit, I think if I heard it correctly. When I look at your 1+ DPDs, we've been inching up. Collection efficiency has dropped. One of the larger NBFCs also recently indicated some pain in MSMEs. What are your thoughts on this bit?

You said you will increase the credit cost by 15, 20 bps this year. But just very qualitatively, what are the challenges that you are seeing? Why are these MSMEs not able to repay? Just some granular color qualitatively on that will really help.

**Aseem Dhru:**

So see, I did try to cover that in the opening statement if you had caught that. There is a political risk that has emerged this year, which is not a normal thing that happens for the industry. I mean microfinance has faced political risk before, but for the rest of the industry, it is a new normal that we saw this time.

And there are phases. Money is linked - You cannot segment money into products. So ultimately, if the velocity of money drops, if lenders pull their hands away from unsecured lending, from microfinance lending, ultimately somebody's expense is somebody's income. So if somebody is cutting down something, ultimately that same fellow will go to a small grocery shop and buy something, and if his income has gone down or his ability to get cash has gone down, then the consumption also is going to get affected, and that consumption is somebody's income. So it is linked.

We have seen an increase in 1+ flow, and that has built a pressure. These are cycles that come that one has to navigate. And it's very clear that it is linked to ticket sizes more than anything else. So it is not about geography so much, it is not about a particular kind of borrower, it is more about ticket sizes that what it is telling you is that the prime credit Indians are doing extremely well, they are pulling it away. But as we go down the ticket sizes, there is a stagnation of income, and a pressure on the ability to pay. So that is broadly what's happening.

**Moderator:**

The next question is from the line of Nidhesh Jain from Investec.

**Nidhesh Jain:**

Sir, one question is that in the current environment where we are seeing stress, over leverage, 1+ DPD inching up. So what is giving us confidence to grow and to disburse, showing 30% plus disbursement growth? And what are the changes in the underwriting filters that we have done, which is giving us confidence to grow?

**Mahesh Dayani:**

So as Aseem pointed out, what we are beginning to see is that there is some bit of stress in some pockets of the country. The stress is more towards the smaller ticket sizes, and we have seen a deterioration in their bureau scores.

So that leads us to tighten our credit filters further for a particular category of borrowers, till the time we see the environment stabilizing or even our buckets stabilizing. So you would probably see the ticket sizes marginally moving up because we would get a little cautious on some of the ticket sizes in some of the geographies.

But having said that, our distribution is so large, and we've got 215-odd branches, and even if we were to say out of that 80% of the branches contribute and there are some small tickets that we move that away, that's not going to actually take the wind away from the disbursals.

Just to put numbers in perspective, we did close to around INR 800 crores this quarter. Even if we were to assume that we maintain the current momentum, that takes us to INR 3,200-odd crores against INR 2,600 crores last year. And that's roughly around a 20% growth in disbursement translating to 25% in terms of the AUM growth.



This is after we introduced fresh filters on underwriting, going slow on the smaller ticket sizes and really focusing on the sectors and the customers who are demonstrating proper track in terms of repayments, or where we feel confident with respect to the credit outcomes.

**Nidhesh Jain:** Sure, sir. And secondly, sir, can you share what percentage of customers will have, let's say, more than 3 loans, et cetera? Because what we understand is that is one big driver of the stress. There are customers who are having higher number of loans, those customers the stress levels are much higher versus customers who are unique or have only 1 or 2 loans.

**Sanket Agrawal:** So the ME customers would not have significant loans outside SBFC, so there are hardly 1 or 2 unsecured personal loans that we see from the Bureau watch. The gold customer will have a more unsecured borrowing outside SBFC.

**Rajiv Thakker:** And we track the customers based on the Bureau score wherein our bulk of the customers, which is 87%-odd is above a cut-off of 700.

**Nidhesh Jain:** Sure. And last question is on credit cost guidance. So this quarter, we have done around 1.1% credit cost, and in the opening comment, you mentioned credit cost will be 15 basis -- 10, 15 basis points higher. So should we build the 1.25% to 1.3% credit cost for the full year or 1.1% is right number?

**Aseem Dhru:** No. So see, you can't see the full 18-hole golf course, you play it a hole at a time. So at the moment, what we are seeing moving forward, it appears that a 15 to 20 basis point is what should be penciled in. That's what we are penciling in. We'll, of course, try to do a better job than this, but that is what it appears, looking at the numbers right now because even if you look at the CIBIL data, what it tells you is very clear that if you look at MSME loans across the industry between March '24 and March '25, you will see that above INR 50 lakhs, from INR 50 lakhs to INR 50 crores, all buckets have seen an improvement, a reduction in NPAs, all buckets.

From INR 10 lakhs to INR 50 lakhs, there is a slight 10 basis point deterioration in NPAs. But in less than INR 10 lakhs, the deterioration has been 70 basis points. So from 5.1%, the industry has gone to 5.8%. So there is a linkage of what is happening at the bottom of the pyramid and we will be fine-tuning our business in light of this data.

**Nidhesh Jain:** Sure. So the base credit cost is Q1 credit cost, on that, we should expect higher credit cost for the full year?

**Aseem Dhru:** That's right.

**Moderator:** The next question is from the line of Shubhranshu Mishra from PhillipCapital.

**Shubhranshu Mishra:** So do we do any industry analysis of our MSME exposure? If so, what would be these industries which have these specific issues of stress? And what is the curing rate for 0 to 30 DPD today versus, say, a year ago?

And in terms of understanding the hand loans of the MSME customers, the CIBIL bureau score would possibly give the credit lines, which they have from other lenders. But during our PDs,

do we get an understanding of the hand loans that these customers have, are they honest enough to speak about it? Or is our process acute enough to understand what is the hand loans that these customers might have?

The second question is around gold loans. How are we looking at gold loan growth, how do we select the branch? Do we have specialized branches for gold loans or we have branches which are merged with the MSME branches? And what is our outlook on gold loan branch expansion? Are we going to do it stand-alone or it will be for cost benefits we will have both products together in locations?

**Mahesh Dayani:**

So let me -- I guess there were just too many questions under the wrap of one, but probably we'll try and answer one by one. Answering your question on gold, so out of 215-odd branches, 175 branches do gold. Whenever you select a location, you have data available with respect to what is the market size available in that particular market. The intent is, obviously, if there is an opportunity for both the businesses to do in that particular location. So the first preference and the first choice is to have both the businesses together because obviously, economies of scale and the cost come in.

Our plan for gold, clearly, it's a high opex business, so we are a little watchful. So if you look at our overall gold in terms of the AUM per branch and the moment your AUM per branch is more than INR 7.5 crores to INR 8-odd crores, it is a highly profitable product for us to pursue. So you will see increase in our branches on a consistent basis, and the increase in gold branches we'll continue to do because they obviously are a yield enhancer for us on an overall portfolio, and obviously, the credit costs related to that product is also to the bare minimum.

**Rajiv Thakker:**

On the hand loans, which you are asking, see, during the PD, so one is that we do 100% personal discussions for all the transactions, and whenever the credit manager visits the customer, he or she tries to understand that whatever assets he has created, whatever working capital he has invested in the business, what is the source, what is the end use of the loans which he has borrowed. So based on the PD, he is able to gauge whether there are any hand loans or not because these are intricacies wherein you meet the customer and understand. So if there are any hand loans through the personal discussion is something which the credit manager understands.

**Mahesh Dayani:**

And answering your question with respect to the industry analysis, so average ticket size of INR 10 lakhs, these are your mom-and-pop stores in your neighbourhood. So typically, your industrial analysis is more on cluster-driven businesses, which have slightly higher ticket sizes, so where you can probably derive the trend as to how the trends are moving, how the receivables are aging or how the inventory is aging. These are largely cash denominated businesses which you deal in.

What you can actually build is the kind of businesses that you have, if it's a grocery store or a salon or what size and what scale of those businesses at what PIN code and what is the range of ticket sizes, which typically are borrowed by these businesses. That's a relative range that comes in, but obviously, you triangulate that further with your personal discussion with the customer and the other financial covenants that come along with it.

- Shubhranshu Mishra:** Right. So can we split this into, say, trading and manufacturing, if that makes sense?
- Mahesh Dayani:** Yes. So the entire book largely is on the services side. So you have very little manufacturing where the ticket sizes are sub INR 40-50-odd lakhs, except largely the converters. But you won't have really pure manufacturers in this particular category of segment because clearly the investment in plant machinery is going to be significantly higher for them to fall into our category.
- Shubhranshu Mishra:** Right. And how many -- what percentage of our MSME customers have a hand loan? Do we have data on that?
- Sanket Agrawal:** So, we would not know how many hand loans they would have, but what happens is generally when our collection team goes to collect, some bit of flavor we get that they also had a separate loan, which was not there in the record. So we would not get the entire hand loans at a portfolio level how many customers would have.
- Shubhranshu Mishra:** So it's fair to say that, that's possibly a grey area for the entire industry, if I have to pan out for the entire industry, the hand loan part of it?
- Aseem Dhru:** Yes, so absolutely.
- Moderator:** The next question is from the line of Nischint from Kotak.
- Nischint:** Just curious where do we see ourselves or probably the sectors in the cycle? 1+ DPD has gone up and kind of gone up quite meaningfully, I would guess a part of it may be seasonal. But again, you have kind of raised credit cost guidance as well. So is it something that you probably see the sheer delinquencies or flow outs increasing further or is it -- whatever has flown up is something that probably you need to provide for?
- Aseem Dhru:** No, see obviously, when you see a flow, there are 2 things that happen - One is that you provide for the worst outcome, but you bat for the best. So obviously, you would want that these flows be pushed back, and that is the attempt that we would be making. But when you are giving a guidance, obviously, you want to ensure that -- because at this moment, it is just flown so I mean, we also don't have a full answer to what's happening. See, you have to realize that while you may think that the operator who's doing the business is fully in control and he's always aware of everything, the reality of our business is that you are also responding to an economy that is at play. Our customers are across geographies, they are across ticket sizes, they are across businesses, et cetera. and you see a certain thing happen and it is very typical for a small ticket business to behave this way. That for a long time, things are steady, and then one quarter something shakes it. So this time, it was Karnataka, something shakes it, and then when it shakes it, when our customers do not have an ability to pay multiples EMIs, so when a customer moves forward to bring the customer -- stabilization is a little easier, rollback is where the challenge comes. So that's the challenge that we have braced for. We will pull it. But since you want to model in your cost, which is helping you with an outcome.
- Nischint:** The reason why I was asking this is because you're probably one of the first or maybe the first BFSI to kind of tighten screens around 15 months back, if I recollect rightly, and I think you've

done it twice or thrice in the 15 months. But we have seen this increase. So is it something that kind of has happened suddenly, and it was like there are some trends that we could not read? Or is it something that there has still been a gradual flow despite the tightening?

**Mahesh Dayani:**

So I think, Nischint, obviously, when we were tightening the screens, we were tightening the screens for certain PIN code, certain states. Some developments, which probably happened in the last quarter was obviously outside the radar, and that obviously has some multiplier effect, and that's reflected in most of the results as well.

So you wouldn't want to pencil in, but then what you can do is you can probably stay away from certain PIN codes and bring down the exposure till the time the tide settles. What we're only trying to say is that while the flows have happened and these flows will stabilize, it will take us a quarter or so to stabilize before we nurse it back.

But we aren't really too alarmed with the situation because certain pockets where the flows have happened, we have a limited exposure in some of these areas. So clearly, there's nothing to be too worried or we need to pencil in any more costs than what we've already stated.

**Nischint:**

But you don't seem to be calling it transitional either. You would say that you're probably just trying to drive it a little more cautiously or do you think it's transitional?

**Aseem Dhru:**

Nischint, you have been in the industry long enough. The second half will be better, is transitory, are hope. So we do not deal in hope, we'll deal with reality as we face it. So we are -- as I said, we are prepared for the worst and batting for the best, so that's all we can do.

But who knows? I mean, what is happening on the economy on the ground across the country, who is in a position to command and say for sure that this is transitional, this will pass? In the long run, everything is transitional. So if you take a very long view, everything is transitional. But reality is that you have to bat for the ball you're getting. And right now, the ball that's coming on to the pitch is bouncing uneven.

**Nischint:**

Sure. Just one -- maybe 2 tiny questions. One was on the co-lending -- sorry, co-originated AUM, which kind of has probably grown very marginally this quarter. Is there anything to read in it? Or is it just that these things probably even out over quarters?

**Mahesh Dayani:**

No, no. So these even out in a quarter. So even last year, in this quarter, the numbers were lower in the co-origination. Second quarter probably is going to be significantly better but that's been the trend, and that's been the cycle.

**Nischint:**

Sure. And just one final one. If you could give some sense or schedule or guidance in terms of how do you see credit cost coming off maybe over the next 2, 3 quarters? Sorry, I'm sorry. How do you see the cost of borrowing coming off over the next 2, 3 quarters? My bad.

**Narayan Barasia:**

Yes. So Nischint, so there are 2 very positive things which is happening. One is the repo has already slid by 100 basis points, and also there's ample liquidity in the system. So both are positives. Our cost of borrowing has also started inching down, and so obviously, over the quarter-on-quarter, the cost of borrowing numbers will look obviously much better. It is very

hard to put a number to it, but what happens is the transmission from repo to MCLR takes a little bit of time and so as the transmission happens, obviously, we'll get the benefit of the transmission.

**Aseem Dhru:**

See, if you want to see it differently, look at what I said in my opening comments, that there is going to be a 15-20 basis point increase in credit costs, but our entire earnings remain the same. So you will be able to work backwards to see what we are saying. Because see, also, we don't want to pencil in all the good news. Let it come.

So I mean, there is good news on cost of borrowing side, so let it come. At the moment, we are penciling in a flat cost of borrowing as our worst-case scenario. Let the good news come because, I mean, we are quick to taking good news into Excel, but the bad news always comes from where we can't see it.

**Moderator:**

The next question is from the line of Mayank Mistry from JM Financial.

**Mayank Mistry:**

Sir, my question is mainly on the mix. As you have already guided you will try to manage around 15% in gold loans. But given the current scenario where the stress is piling up in a LAP book and also considering that even RBI is giving us a little relaxation in terms of LTV in gold loans, so isn't this the right time to maybe shift our mix slightly more towards gold loans, I mean, given the current scenario and probably get it back once the situation calms down?

And my second question is on the PCR. Given that in this quarter, we had 1.1% of credit cost, despite this, our PCR has also declined. So I mean even if we do 15-20 bps more of credit costs, how do we see the PCR? I mean, at what level do you plan to keep the PCR ratio also on the overall cover on our book? Those are my 2 questions.

**Sanket Agrawal:**

On the PCR front, 1+ is usually not always going to 90 plus, it's sitting in the bucket 1 and 2 as well. So PCR is calculated on the NPA books that has marginally come down. It is in that range of 44 - 45%. So nothing too deep, to look into it.

**Narayan Barasia:**

So on the PCR also note that if you look at June '24 and you look at June '25, you'll see an increase in PCR, isn't it? So quarter-on-quarter, some movements may happen here and there, but if you see gradually, we have taken the PCR up over a period of time.

**Mayank Mistry:**

Okay, sir. And on the mix, sir?

**Mahesh Dayani:**

Yes. So I think on the mix side, probably if you look at our entire last 12 months and even on a quarter-on-quarter basis, you'll see our gold moving up by almost 40%-odd. This quarter is also closer to 8%-odd. Year-on-year, it should be close to around 37%, 38%-odd. We've been conscious enough and we've been investing in these branches in states where we are comfortable.

I think gold, there is no underwriting or there's no credit risk. I think the largest risk is the operating risk. So it's not that you open 100 branches and 200 branches and you feel that the gold price is favourable and you can actually derive those particular results. I think the way we approach it is slightly different - If we are comfortable about a particular state or a geography where our returns and the operating metrics is in line with our expectations that we wouldn't

mind going ahead and expanding. So to answer your question, we will remain invested in incremental branches coming through, and most of the branches are going to have gold with it.

And coming to the MSME business, I guess all of us at SBFC have spent probably more than 2 decades in this particular business. We've seen enough cycles going up, going down. And I think the entire approach is that how do you address those particular cycles, there's a particular method to the madness in which you address them. You would want to probably go a little slow in terms of disbursements in some pockets, you might want to accelerate your momentum in some category and some pockets. But you will have to balance, you just can't vacate a particular geography or you can't completely vacate a particular segment because of an event which has happened in a month or in a particular quarter if you are there for the long haul.

What we are looking at it is probably a temporary space for which we have taken proactive actions in the last quarter. You will see some mix and colour changing from this quarter onwards as we speak, but this is largely for the long haul. And that's what we keep committed to the fact saying that irrespective of the seasons and the colour changing, our guidance of 5% to 7% in terms of growth momentum is going to remain unchanged.

**Mayank Mistry:** Sure, sir. And also the mix, right, because I think that current branch expansion going faster in gold as compared to MSMEs, automatically your gold mix will start moving up. That's my actually question mainly?

**Mahesh Dayani:** Yes, mix is largely going to remain the same.

**Mayank Mistry:** Okay. And just can you give us some light on the ROA tree? Or maybe if you can give us segmentally, I mean what is the ROA differential in both the businesses?

**Narayan Barasia:** So see, we are very profit and ROE-focused organization. The difference in the 2 businesses are fundamentally very different because the gold comes with a higher opex, the secured MSME comes with a low yield and low opex, right? So in a way, the ROEs are the similar numbers, and we steer to look at a 15% ROE over a period of time.

So ROE today is about 13.5%. If you look at ROE every quarter, it has been moving up. Last year quarter 1 of 2024, we were at 12.3% and now it's at 13.5%. So over the period of time, I think we will see volatility. Sometimes the delinquencies are high, sometimes the gold business takes a knock, but I think both the businesses, we are steering towards 15% ROE.

**Moderator:** The next question is from the line of Shubhranshu Mishra from PhillipCapital.

**Shubhranshu Mishra:** There was one question which was unanswered. What is the 0 to 30 curing this quarter versus, say, a year ago?

**Mahesh Dayani:** So we don't call out on that particular number. And largely, all I can tell you is that the trend is not going to be very different, although we've seen the 1+ moving up, but that's again for this particular quarter. But in terms of curing, and stabilizing, the percentages, we've not seen that very, very different.

- Shubhranshu Mishra:** So largely, it's similar?
- Mahesh Dayani:** Yes.
- Shubhranshu Mishra:** And that is largely to do with our collection efforts, the curing remains similar on a Y-o-Y basis because what you alluded to is that the customer segment and certain ticket size is coming off, so it's more to do with our collection efforts in that case?
- Mahesh Dayani:** It's not to do only with the collection effort. So in terms of our collection infrastructure, I think what we've done is we've invested in the collection infrastructure. We've got more than 550-odd people across our 215-odd branches. So I think the distribution is reasonably set.
- Answering your question in respect to curing, now curing has 2 parts - One, you either stabilize or you roll back. So my answer was that as long as you are able to stabilize first and then you can cure for it in terms of rollback. So as far as the stabilization are concerned, the percentages are largely similar.
- Shubhranshu Mishra:** Sure. And if you can give out the number of loans that we do in MSME on a quarterly basis or a monthly run rate?
- Mahesh Dayani:** So we do close to around 2,700, 2,800-odd loans on a monthly basis.
- Shubhranshu Mishra:** Right. This run rate remains similar in the upcoming quarters as well?
- Mahesh Dayani:** Yes.
- Moderator:** The next question is from the line of Rahil from Crown Capital.
- Rahil:** Sir, just one question - Any outlook or guidance on the return on assets?
- Sanket Agrawal:** So we have seen stable ROAs since last couple of years. I think even when the leverage has gone up, we have managed to have our ROAs in the range of 4.5% to 4.6%. As we lever up, there might be slight compression, and we may, over a period of next 2 years go down to 4.2% to 4.25%, at which time your leverage from 3 will go up to 4. So this ROA, along with the leverage, we'll end up giving the desired ROE of around 15%.
- Rahil:** Okay. So ROAs will see some compression over time?
- Sanket Agrawal:** Yes.
- Rahil:** So by when do you feel they can go back to current levels and more?
- Narayan Barasia:** So Rahil, so see, the way it works is as the leverage improves, the ROAs tend to go down, right? It's only a function of leverage, isn't it? We are at a low leverage today and the leverage should improve from here. The good thing is and the most important thing is to see ROE, which whether the ROEs are improving or not.

So whatever happens to ROA basis leverage, we should see the ROEs improving. So if you see the ROEs have been constantly improving quarter-by-quarter. It has been at 12.3% quarter 1 of last financial year, it is at 13.5% now. The question is whether the ROEs will move to 15% as we go on, and that's what we are aiming at.

With increasing leverage, ROAs generally tend to slightly come off over a period of time. But what we are looking for is obviously a good spread as we go along. As we guided, the opex should as a percentage be coming down. The only thing is the leverage which will improve, which is good from an ROE point of view.

**Moderator:** Thank you. As there are no further questions, I'd now like to hand the conference over to the management for the closing comments.

**Sanket Agrawal:** Thank you so much for joining the call. Since we have done the call on the same day of the results, if there are any further questions, please do reach out to me. Thank you so much.

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