



**“Sammaan Capital Limited Q1 FY25 Earnings
Conference Call Hosted By Investec”**

August 13, 2024



**MANAGEMENT: MR. GAGAN BANGA – VICE CHAIRMAN, MD & CEO,
SAMMAAN CAPITAL LIMITED**

MODERATOR: MR. KAMAL SHAH – INVESTEC

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY25 Sammaan Capital Limited Earnings Conference Call hosted by Investec.

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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kamal from Investec. Thank you and over to you, sir.

Kamal Shah: Good afternoon, everyone. Welcome to the Q1 FY25 Earnings Conference Call of Sammaan Capital Limited to discuss the “Financial Performance” of the Company and to address your queries.

We have with us, Mr. Gagan Banga – Vice Chairman, MD and CEO of Sammaan Capital Limited. I would now like to hand over the call to Mr. Gagan Banga for his “Opening Comments”. Over to you, sir.

Gagan Banga: Thank you, Kamal. Very good day to all of you and welcome to the Q1 FY25 Earnings Call.

I would request all of you to keep the Earnings Update handy. It's been e-mailed to most of you, is on our Website and should also be on Bloomberg.

Before moving to the numbers, I would like to cover the key highlights for the Quarter:

In July '24 earlier last month, following a detailed review process spanning over six months, the Reserve Bank of India issued us a fresh certificate of registration, as an NBFC-ICC, which is a Non-Bank Financial Company, Investment and Credit Company. With this, we are now an NBFC, supervised and regulated by the Reserve Bank. Since a few years now, the regulatory approach is on scale based regulations. As Indiabulls Housing and HFC, we were classified as an upper layer NBFC, which we continue to remain. So, in most ways, life does not change for us, particularly since over the years RBI trust has been to do away with any regulatory reporting or disclosure arbitrage, especially between NBFCs and housing finance companies.

Following this conversion to NBFC-ICC, the Company's name has been changed to Sammaan Capital Limited. The Company shares are also now being traded under the script “Sammaan Cap” on the stock exchanges. Sammaan in Indian languages means respect, honor, courtesy, and dignity. The Company intends its brand and the meaning of the word Sammaan in the Indian context to emphasize and convey to its stakeholders a customer centric approach, a sense of pride in buying the house or owning a business. These are the two products which are our focus in our retail loan product suite. We expect and hope that we are able to pass on to a customer an approach of a very dignified business conduct.

As a systemically important lender, a mortgage focused lender and a Company with a varied set of stakeholders including investors, regulators, bankers, rating agencies etc., the brand name Sammaan connotes and conveys what our business stands for and how it is run with respect to each of these stakeholders. This is also the 25th year of our operations. The erstwhile Indiabulls from which the Company originates, was incorporated in the year 2000. Our rebranding exercise around the new brand and our 25 years of operations is underway across various channels and our branches and points of presence.

Slide #3 of the Earnings Update covers the entire rebranding outreach. I will now move on to the quarter's number, would request all of you to refer to Slide #4 of our Earnings Update:

The net worth of our Company as of June end stood at Rs. 20,269. As most of you would be aware, the final call monies were called and the window to pay up the call money opened on 8th of August and will close on the 22nd of August 2024. When this money is with the Company, the net worth would rise by a further Rs. 2,462 crores. The AUM and loan book have resumed growth, supported by retail disbursements.

Net interest income has come in at Rs. 927 crores this quarter versus Rs. 562 crores quarter one of last year. Profit after tax for quarter one Fiscal '25 was Rs. 327 crores versus Rs. 296 crores in quarter one Fiscal '24. Gearing is moderate 1.9x. Our target is to maintain it between 2 to 2.5x. Return on assets for the quarter for the overall book was 1.8% versus 1.7% in quarter one last year. Gross NPAs are stable at the lowest level in 16 quarters at 2.68% and net NPA is at 1.52%.

Now if you can, please turn to Slide #5. As I mentioned in the previous quarter's Results Call, subsequent to the receipt of the new certificate of registration from the RBI, the Company will initiate a detailed business planning exercise, keeping in mind the feedback received from the RBI and various stakeholders. We have since then received the new certificate of registration and the feedback through the course of planning for the rights issue and in our subsequent meetings with the large shareholders of the Company as well as through the meetings with bondholders through the dollar bond issuance done by the Company in March. A variety of stakeholders have given us feedback cutting across various aspects of our business. Our shareholders have provided us with the necessary capital buffers, which in the short-term provide us liquidity and over the medium term very importantly a tactical tool to ensure the legacy book which is the book sourced in Fiscal '21 and prior.

Our goal is to try and run this book down to single digit percentage of AUM level by Fiscal '27. Some of our larger shareholders have also committed support to management in the form of either debt or equity capital as and when required and have asked the management to focus single mindedly on the execution of business so as to be able to provide the mid teen ROE to the business by Fiscal '27, which is the target that we have taken upon ourselves.

Capital, both debt and equity capital is extremely crucial for a non-bank finance Company to kickstart operations, to scale them up to make sure that one can continue to invest in the retail franchise. And I would like to thank multiple pools of capital, both debt and equity, which have worked with us. Some of them have participated in our various issuances. I am sure in due course of time, most others would either be forming part of our lender list or our capital register. I would like to thank all of you and also thank our large shareholders who given this assurance to the Company and now the management can therefore not worry about liquidity etc. and fully focus on this execution and execution around the 8 milestones that we had set up in quarter 1.

I would also like to inform all of our stakeholders is that along with quarter two Fiscal '25 Results, which is the next result, we will not only reiterate our key milestones for Fiscal '27, provide you an update on these as I will shortly for quarter one and provide you an update for these for Quarter 2. We would also like to unveil a completely new corporate structure they have as part of the Board outcome gathered that we are merging six of our smaller subsidiaries. We have also lined up the identification process of a couple of fee based businesses. And what we intend to unveil for you as part of the corporate structure is how we would continue to pursue our retail businesses as well as complement those by a bunch of fee based businesses. And what the overall structure would look like in light of the feedback received both from RBI as well as our other stakeholders.

We had committed that here on starting from quarter one, we would provide updates on 8 aspects of our business. We have identified loans which we have sold prior to Fiscal '22, which is up to Fiscal '21 as what we would like to call legacy AUM. The distinction between legacy AUM and the incremental AUM is that the incremental AUM is a very transparent book. It is a book that has been validated both by our credit team as well as the credit team of the purchasing bank or the financial institution on a case-by-case basis.

To go back to the point of legacy book, the legacy book would be reduced to single digit percentage of AUM by the end of Fiscal '27. If we look at our track record since Fiscal '22 on the reduction of this book, this book has been reducing by an on an average Rs. 4,000 crores a quarter. To reduce this, we have estimated a very conservative Rs. 3,000 crores a quarter of collections, which we are fairly confident we should be able to achieve.

It is a dynamic world. Regulations change every day. There is geopolitical uncertainty. There are certain macro headwinds. But given the fact that the Company when it sells was trying to establish a new business model, was able to collect very consistently across the last three financial years at a quarterly run rate. Now with management's full focus on only this, one is fairly confident that the single digit percentage of AUM by end of Fiscal '27 for the legacy book would be achieved.

Since Fiscal '22, the Company has disbursed Rs. 35,195 crores, of which already Rs. 22,658 crores of disbursements have been placed through co-lending assignment and securitization. As I mentioned earlier, this is a very transparent book and the book that has been validated both by

us and the purchasing partner on a case by case basis, including all loan application and documentation etc. The collections are passing through an escrow account and this is a pure and simple validation of the scale that we have already achieved in our asset-light model. The goal by Fiscal '27 is to make sure that this book grows to at least Rs. 1 trillion.

Our incremental AUM, so we disbursed Rs. 35,195 crores, of which there has been run down. So, our incremental AUM stands at Rs. 29,180 crores, of which Rs. 22,000 crores have been sold down. We have per run rate in terms of manpower distribution capacity to steadily ramp up disbursements and thus ~~up~~ the target of Rs. 1,00,000 crore or Rs. 1 trillion of retail AUM by Fiscal '27. We can get there only by consistent disbursements. Our quarterly disbursement as of quarter one stood at Rs. 3,115 crores and we shall be trying to ramp this up to Rs. 5,000 crores by the end of the current fiscal year, which is quarter 4 Fiscal '25, we will be targeting a quarterly run rate of Rs. 5,000 crores and if we keep growing that on a normal basis, that should add up to a lakh crore of retail AUM by Fiscal '27.

On all of our other target parameters such as incremental ROA, cost to income ratio and net NPA ratio, we have provided a clear glide path as well as an update on the incremental number that we are achieving already and thus we are firmly on track to achieve our target for Fiscal '27. Slide #6 contains an update on the asset-light disbursements for quarter one Fiscal '25.

Under the asset-light model, we disbursed Rs. 2,058 crores which is we did transactions of about Rs. 2,058 crores. Presently, the Company has nine partnerships. We have inked in other partnership in quarter one and gotten a letter of approval in quarter two from another public sector bank. By the end of this quarter, we should be at about 10 functional partnerships. We also do sell down transactions with 16 banks and financial institutions. So, in total, we'll have close to about 26 partners with whom we are doing business.

Moving on to the ALM and the Liabilities part:

The most important point of the liabilities part is the kind of diversity that we have been able to achieve in our incremental source of funds. If you refer to Slide #16, you would notice that we have since April '23, which is the last five quarters raised close to about Rs. 24,000 crores, of which we start practically, each and every source of capital available to us. We have raised equity of about Rs. 3,700 crores. We have done term borrowings from banks of nearly Rs. 5,000 crores. We have raised about Rs. 834 crores through retail issuance. We placed bonds on a private placement basis of nearly Rs. 3,000 crores. And co-lending has been going on at almost Rs. 1,000 crores a month and we have now reached Rs. 11,617 crores.

Aside of the asset-light model, the other big achievement for the Company is the fact that we have created a pool of retail and high net worth bondholders who are currently contributing as much as Rs. 3,000 crores to our resource pool, which is close to about Rs. 1,000 crores per year and we have now close to about 45,000 investors who are holding our bond. This is aside of the

asset-light structure, a real franchise, very long-term durable debt capital, which the Company is sourcing on a regular basis.

Coming back to the point of ALM:

At the end of June '24 on balance sheet, we carried liquidity of approximately Rs. 7,600 crores. As we have been detailing our ALM, our detailed 10-year ALM is on Slide #18 to 22. At the end of the first year, we have a net surplus of Rs. 9,785 crores. As the Company is now converted into an NBFC, Sammaan Capital is required to maintain a liquidity coverage ratio of 85%. Against this our LCR, which is strictly high-quality liquid assets as of June '24 stood at 211%. As defined by the Reserve Bank, even bank's fixed deposits that we keep, which would be included in our actual liquidity are excluded from high quality liquid assets. We manage our ALM proactively and towards this the Company has been historically, voluntarily creating pre-funded pools of monies to meet the upcoming redemption of FCCBs in September 24. Since February of 24, the Company has been setting aside 25% of the payable monies every quarter. This is now built up to 75% of the maturity proceeds. And these will be duly paid on whenever the put option is maturing.

So, far, if we look at the last 10 years, the Company from overseas investors over 215 overseas investors have borrowed \$3.84 billion, of which it has already repaid \$3.25 billion. In the last six years, it has repaid \$2.15 billion. And I assume as our ratings improve with this kind of a track record, overseas borrowings would continue to be a large pool of capital and periodically it would also tend towards becoming a viable pool of capital.

Referring to Slide #9 of the earnings update on Asset Quality:

As at the end of June '24, our gross NPA stood at Rs. 1,782 crores translating to 2.68%, net NPA is at 1.52%. NPAs are at a stable level of 16 quarters. As we have been sharing, the Company carries imputed provisions of 11.6% of the loan book. The freshly raised capital further provides Company with tactical capital and all of these provisions and this tactical capital would be deployed over the next 8 to 12 quarters to make sure that by Fiscal '27 we actually do run down in the most profitable organic and systematic manner, the legacy AUM to become an insignificant portion of the overall AUM. Having come through this six-month detailed review process, before we were granted the fresh certificate of registration and keeping in mind the current regulatory environment, we are not only is one classified as an upper layer, non-bank finance Company, but what one is witnessing that the regulator is expecting regulated entities to keep compliance, risk management, liquidity management, etc. at the center of the Company.

I would like to reiterate our key areas of focus:

The Company would continue to imbibe and deeply imbibe a culture of compliance and risk management. The business plan that we are evolving and building on since Fiscal '22 and I hope that now with all strategic steps being behind us, the business plan would be keeping in mind

compliance and risk management at the core, while ensuring that it remains asset-light, the capital requirements are as less as possible, and the fee income generation is as diverse as possible. The Company would continue to focus on a very benign sort of an ALM and our entire borrowing plan is working towards ensuring that in no months do we borrow more than a few 100 crores such that three or five or seven years later in that particular month, there is no stress.

Lastly, in order to remain competitive, as well as to further the cause of compliance and risk management, we are making heavy investments in technology. We have also just onboarded an advisor who is part of the RBI's core group towards IT innovation. Along with him, our technology team and our Board subcommittee are emphasizing on upgradation of our technology backbone, making sure that our various risk management modules are as good as they get. And from our customer perspective, both our relationship management and as well as the user interface on our app etc. is world class.

We will continue to give you regular updates on this front as well. That was the update for the quarter. We are now open for questions and thank you all for your support.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: I just wanted to clarify a couple of points. One is on your NPA numbers, may I know what the difference is between what's declared on the financial statement that the NPA is about 3.4% gross and 2% net versus the presentation that's at 2.7% gross and 1.5% net?

Gagan Banga: Abhiram firstly, thanks to Deutsche Bank for supporting us continuously. The difference could be coming from that we report NPA as a percentage of AUM for us that is very strategically important to make sure that on an overall AUM basis, the NPA is maintained. I have shared in the past with various stakeholders that are moat as far as this business is concerned is the credit quality of our AUM. And therefore we invest lots of reams of paper of the earning update as well on just demonstrating the quality of the overall AUM. So, one difference could be that either it could be coming from the fact that we declare both standalone and consolidated numbers. And in the earnings deck, we report NPA as a percentage of AUM whereas the Earnings Results filed with the stock exchanges are more statutory in nature and I believe they would be following a protocol of own book or balance sheet or something like that. So, I am sure my Investor Relations team can clarify that to you if it still requires clarification.

Abhiram Iyer: Thank you for that. The second question is on your current incremental funding costs. Can you just enquire what if you say go to the loan market or the retail market at the moment, what would you see your current incremental cost of warranty? And what does that stand versus last quarter?

Gagan Banga: So, again, I will go big picture down to specifics. We are strong believers of the fact that ultimately cost of capital can only be achieved and brought to competitive levels if there is a free flow of capital. As a Company on the asset side, the strategy that one can follow is either we

become yield hunters because we are running a certain cost of capital or we continue to do prime loans that we do with higher yield loans as the exception and not the rule. So, when we look at our cost of capital, given our asset-light structure, we have to look at two different aspects. One is what is the cost of capital which is coming to fund the 80% of what we are funding, that number today would be in the handle of 8.5%. And then there is the cost of capital for the residual 20% that we are funding and holding on our balance sheet. For the balance sheet borrowings, we would be borrowing at about 9.5% today. Between last quarter and this quarter, there has been an insignificant inch up or down. My sense is from the transformation to an NBFC to the name change and all of that, one is clearly witnessing post the capital raise, the flow of debt capital has become a lot more abundant, a lot more free. The quantum of debt capital on a daily basis that we are being able to raise is increasing by the passing day. So, it's a very comforting situation in that sense. We are not going and over borrowing in any particular month. We are very mindful of the ALM, so keeping all of that in mind, I would imagine that the cost of fund material decline that you will see would start emanating in 6 to 12 months from now. At this point in time, we are more focused on the quality of capital. I mentioned that we have raised Rs. 23,000 odd crores from a diverse set of lenders. That's more the focus of the Company that the borrowing mix should be as diverse, it should be coming from more and more lenders versus being skewed towards one lender type or one lender in specific.

Abhiram Iyer:

Perfect. And just one last follow-up question. As you mentioned your quality of capital and the fact that the call monies will be called and expected by the end of this month, you are expecting basically the full amount to be garnered right with the investor base fully in sync with as you mentioned during the call with your growth plans for this year?

Gagan Banga:

Yeah. So, I am pretty confident, very supremely confident that by the 22nd of August, the call window is 8th August to 22nd of August. By the 22nd of August, the money should be in the escrow account. And then there is a process which bankers have to follow. So, following that process, it will take another whatever week or so for us to get the monies in our account that's all procedural. This in my mind is already accomplished, it's already done. What one is now working towards is seeing the commitments through which have been made to the wider set of stakeholders, including the larger shareholders, the smaller investors through these calls, we take on targets on these calls. We take on these targets with the right earnest. It's a dynamic world. The macro keeps changing, the micro keeps changing. The risk framework keeps changing. The endeavour of management is to take on the targets and to keep it very objective. We have set these 8 milestones. We are not worrying about capital anymore. We are just concerned about how efficiently and quickly can we get and achieve those eight milestones and the goals that we have set for Fiscal '27 and make it as organic as possible by achieving something and making progress on every aspect every quarter.

Moderator:

Thank you very much. The next question is from the line of Shekhar Singh from Excelsyor Advisor. Please go ahead.

Shekhar Singh: Sir, just wanted to understand the statistical rundown of legacy book which is mentioned in the presentation multiple times. What exactly does it mean and what is the quantum of this hit that can come in?

Gagan Banga: Why do you assume of a hit? Tactical rundown means a rundown which is organic, which is well prepared for, we do it in a planned manner. We do it leveraging our provisions. We do it leveraging our capital. And if there are any provisions like we have demonstrated in the past, that even if we classify loans as NPAs or do technical write-offs, we recover those monies, so we have to do it in a time bound, organic, efficient manner and make sure that we are free from the legacy and we are able to focus and build on the Rs. 1,00,000 crore. So, I don't think anyone needs to worry about given the track record of the Company on recoveries on how we will be able to run down the book. Remember this team has from a book of Rs. 1,20,000 crores which was there as of September 2018, from that book already collected a Rs. 1,50,000 crores of principal and interest and use that to repay Rs. 90,000 crores to lenders. So, we know how to collect, we will continue to collect. We also have set a goal and whatever it takes to achieve that goal, we will achieve that goal. Whatever is the planning that needs to be done in terms of achieving that goal. As I've already said, we will present to you a detailed plan next quarter as to how quarter-on-quarter are we going about achieving that, keeping in mind that we also are a regulated entity, we have lenders to who have covenants as well as rating agencies who evaluate us on various capital ratios.

Shekhar Singh: And secondly, sir, any indication on what the dividend can be in the years to come or the dividend policy of the Company?

Gagan Banga: The long-term dividend policy of the Company would be to keep dividends between 30% and 40% of profits. We have to use our capital and our earning tactically. We have said that the 8 milestones that we have laid out are what we are going to be focusing on achieving. If we are well on the way and quarter-on-quarter we are achieving those targets. Historically, the Company has taken a lot of pride in declaring dividends. We will happily declare 30% to 40% of our profits as dividends.

Moderator: Thank you very much. The next question is from the line of Abhiram Iyer, Deutsche Bank. Please go ahead.

Abhiram Iyer: Just one thing on your AUM mix, obviously the commercial real estate loans has come down to about 29% of the book. May I know the split of the 29 is between project construction finance and your lease rental discounting?

Gagan Banga: No commercial real estate will be a combination of construction finance, lease rent discounting, loan against property loan and everything. So, whatever is not home bank could be here. So, don't take it as that. That's the technical definition of what CRE is. Please, if you read yesterday's circular of RBI also, they further segregate CRE as CRE resi and CRE others. So, don't go by that. I would suggest that all stakeholders and we will also change this chart from next quarter

should focus on legacy book, which is all kinds of assets, home loans, loans against properties, commercial real estate loans etc. All kinds of assets which were there pre-Fiscal '22 and post of Fiscal '22, we have been following the asset-light model structure. So, it's that this is what you guys and everybody else and this is how we are also internally working there is one team which is working on run down and another which is working on scaling up the asset-light model.

Abhiram Iyer: Got it, Sir. So, hopefully you get that breakup next time on, but can we get it now if I ask what should..?

Gagan Banga: You can get in touch with Ramnath and he will provide you with this.

Moderator: Thank you. The next question is from the line of Narayan Dwivedi, Stock Insider. Please go ahead.

Narayan Dwivedi: My question on asset-light model. Sir, if we can lend the customer by ourselves, so why we are choosing co-lending and what strategic benefits it gives us to co-lend?

Gagan Banga: The big strategic benefit is that you are outsourcing your ALM. You don't take on the borrowing on your balance sheet. As and when the customer pays, you pay back the bank or the partner. It is not this that ever a situation can come that the customer for any reason is not paying. But the debt obligation of repayment is on you and therefore your entire business gets disrupted in that sort of a situation. The second big advantage is that the cost of funds of the 80% which are bank finances, is a lot lower than the cost at which it would be willing to lend to an NBFC directly. Given this, the blended yield becomes much lower and we are able to lend to a far more primer customer, a far more, let's say higher on the credit Bureau score versus somebody who we could have lent, if we were lending solely from our balance sheet. So, given both the contribution of a very high-quality asset, as well as no ALM risk and therefore a very high-quality liability, co-lending is by far the most durable structure and it's a structure which is in line with how the western world also finances mortgages where the originator and the warehouse are different. I hope I've answered your question. I will take just one last question and then you can always send us an e-mail or something.

Moderator: Thank you very much. With that, we have come to the close of the call. You can write in to the Company if you have any further question. With that, I would like to hand over the call to the management for closing comments.

Gagan Banga: So, thank you so much. Thank you for your support through the multiple rounds of capital raise and welcome to Sammaan Capital. Look forward to speaking with you all of you again at the end of Quarter 2, thank you.

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