“Sammaan Capital Limited

Q3 FY '25 Earnings Conference Call”

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MANAGEMENT: **MR. GAGAN BANGA – VICE-CHAIRMAN AND MANAGING DIRECTOR – SAMMAAN CAPITAL LIMITED**

MODERATOR: **MR. KAMAL MULCHANDANI – INVESTEC**

Moderator: Ladies and gentlemen, good day, and welcome to Sammaan Capital Limited Q3 FY '25 Earnings Conference Call. 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 phone. Please note that this conference is being recorded.

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

Kamal Mulchandani: Good evening. Welcome to the earnings conference call of Sammaan Capital Limited. We have with us on the call today, Mr. Gagan Banga, Vice-Chairman, Managing Director, joined by other senior management of Sammaan Capital and Sammaan Finserve Limited. I would now like to hand over the call to Gagan sir for his opening comments, after which we will take the question-and-answer round. Over to you, sir.

Gagan Banga: Thank you. A very good day to all of you, and I welcome you to our quarter 3 fiscal 2025 results. I request you all to keep the earnings update handy. The same have been uploaded on the Stock Exchanges and are also available on our website.

Last month, we successfully raised $150 million, which is approximately INR1,300 crores via a qualified institutional placement. Via this qualified institutional placement, we onboarded some marquee investors on to our cap table. The cap table is now fairly stable with the top five institutional investors owning approximately 25% of the company.

This also, in some ways, signifies the end of the transition from being a promoter-led company, the erstwhile promoter owned 21% of the company. And now the top five shareholders own 25% of the company. Each of these investors have a long-term vision for the firm.

I'm extremely grateful to all of our shareholders and to all of these investors who have supported the company. The markets of late have been extremely volatile. And through these volatile times for them to have supported the company, for them to have shown confidence in the management has encouraged the management to try and work even harder.

Following the last calendar year's rights issue, which was a tactical capital raise and was utilized in reorganizing our business lines between the parent and the subsidiary, the QIP monies have now further added to the strength of the firm and to our capital ratios.

In all, including last year's rights issue, in the last 12 months, we have raised INR5,000 crores of equity capital. All shareholders have supported the firm, and I am, along with the management team, extremely grateful for the support.

On Slides 11 and 12, which I will, in due course of the presentation, refer to the strategic priorities. These strategic priorities will hopefully, and we have great conviction that they will certainly create value for shareholders. And I would like to commit that along with my entire management team, we will do whatever it takes to try and achieve these strategic goals set for fiscal '27 and come back to you and demonstrate the success every quarter.

Coming back to this quarter's performance. Via this equity raise, we have demonstrated our access to equity markets. We have extremely high capital ratios. We have very moderate to low NPA levels. There is a traction in the growth AUM. And there is a great traction much beyond our expectation also in the reduction of the legacy book.

We believe this has greatly boosted the credit profile of the company, translating to steady flow of on-balance sheet debt capital. It is also supporting the asset-light model. And I believe now we are well positioned on the credit ratings front to have a positive ratings trajectory. We are engaged with the rating agencies and are optimistic of a positive ratings trajectory in the near term.

I shall now go through the quarter's numbers. I request all of you to turn to Slide 3 of the earnings update. Our accelerated transition of the business model is moving at a pace which is faster on most aspects than we had originally budgeted. The more important part is that we have been able to manage this transition while maintaining steady profitability and a consistently improving asset quality.

Just as highlight numbers, the reduction in legacy AUM has happened to approximately a size of INR14,300 crores in 12 months. Collection from the legacy book in 9 months stands at almost INR10,000 crores, while half of that or nearly half of that has come in quarter 3 itself. Strong traction in the growth AUM continues.

We have now a growth AUM, which is approximately INR35,000 crores, and this forms 56% of our total AUM. The reduction in the legacy book is still outpacing the growth in the growth AUM. This may continue for a quarter or so more. I hope that from quarter 1, rather I'm quite confident that from quarter 1, the pace of growth of the growth AUM will be ahead of the decline in the legacy book without any compromise in the speed of decline of the legacy book.

Again, the goals which have been set for the reduction of the legacy book via cash collections are not being changed, even though -- we have continued to make progress. We are very, very sure that we should be able to at least meet the numbers that have been committed to investors.

Our consolidated net worth has now grown to INR20,331 crores. Our gearing is very moderate at 2.2x. Please note that the net worth numbers that are mentioned in the earnings update as well as what I just mentioned do not include the INR1,300 crores of QIP as this was raised in January of '25, and we are reporting numbers as of December 31. Our gross and net non-performing assets are at their lowest levels in 6 years and stand at 1.19% and 0.69%, respectively, compared with 2.85% and 1.71%.

At this juncture, I'll take a small diversion. And I'll remind all of us of the conference call that we had after the end of our quarter 2 results, where several investors had voiced a concern that if the provisions that were taken were to be seen as a reflection of the overall credit portfolio of the legacy book, what kind of estimate should be read into further credit costs. I had, at that point in time, said that on an incremental basis, we will see a credit cost range of 80 to 100 basis points.

In the near to medium term, I do not visualize any requirement of any dip into capital and the pre-provisioning operating profit of the company is strong enough to comfortably bear this 80 to 100 basis points credit cost. At the end of quarter 3, I am happy to inform and update that whatever I have said at that time has happened.

The company has reported a quarterly profit of INR302 crores a credit cost of 100 basis points. And as I just said, net non-performing assets, which were 171 basis points 1 year ago, have declined by 102 basis points and now stand at 69 basis points. We have said the move is tactical. We have said the move will accelerate our cash collections and will also facilitate the recoveries. And within a short order, we have seen how cash collections have moved up significantly as we press on with all the legal remedies which are available to us.

Now moving on to Slide 4, which puts our journey from fiscal '18 in perspective. Since then, the net worth has gone up by INR7,000 crores. And we are talking of a period which in the initial phase had the fallout of the IL&FS crisis followed by COVID. Despite all of this, the net worth has gone up INR7,000 crores, while we've also paid dividends of almost INR4,300 crores through this period.

The legacy book, which was standing at INR120,000 crores at the start of the crisis in fiscal '19 is down to approximately INR27,000 crores and has generated cash inflows for us to have serviced INR83,000 crores of net principal debt repayment and interest of INR40,000 crores on this debt, thus the original INR120,000 crores book has already generated cash payouts to our lenders of INR123,000 crores.

This is actual cash, which has gone from our bank accounts into our lenders' bank accounts. And very importantly, it has gone at a time which was either ahead of the contracted schedule or in line with the contracted schedule. This, I continue to state and believe is the strongest possible testament to the quality of the book we've underwritten.

Fiscal '18 through days has been a fairly tough time for most nonbanks. Through this period, net of the loss reported in quarter 2, the company has posted profits of INR12,780 crores. Our borrowings from a peak of INR120,000 crores in the middle of 2019, including the PTC portion, which stays on the balance sheet is down to INR44,000 crores.

This has resulted in a reduction in gearing from almost 9x in fiscal '19 down to 2.2x. This also, in some ways, marks the end of the consolidation phase, which the company needed to go through in order to emerge significantly stronger. Our capital ratios are stronger. Our credit performance is there. And most importantly, as credit analysts would look, the static analysis of the company's portfolio has returned fairly healthy credit costs.

Having managed this transition in a stable manner with annualized profits of approximately INR1,200 crores, we believe the pace of acceleration of the growth AUM in an asset-light structure while maintaining the quality of the target ROA and ROE will be met and our goals of fiscal '27 would also be met.

Our recent capital raise will facilitate further on-balance sheet borrowing, which in due course, will influence our partner banks and thereby increase their confidence in us. The partner banks anyways are enthused with the quality of the book that they are purchasing, and they further have a second check since they do a case-by-case due diligence. All in all, we have built a very strong support ecosystem for our asset-light strategy.

If you all can please now turn to Slide 5. Our growth business is structured in this manner. The parent company is Sammaan Capital Limited. We have set out goals for Sammaan Capital Limited. Sammaan Capital would continue to perform strictly in the asset-light structure. The stand-alone growth AUM target for fiscal '27, which we have set is INR70,000 crores.

The consolidated growth AUM target that we have set under Sammaan Capital, including itself is INR1 lakh crores by fiscal '27. This company on a steady-state stand-alone basis is moving towards generating a 4% ROA. Incrementally, it is already generating a 3% ROA.

We had introduced Sammaan Finserve in quarter 2 to our wider set of investors. Sammaan Finserve is scaling up slightly ahead of the numbers that we had set out. The business model has been created that it is a non-overlapping business. As we have shared, the company is building up on its leadership team.

The distribution will also start expanding into the target cities. We are looking at achieving a growth AUM, which is the target AUM that we have of approximately INR15,000 crores by fiscal '27 for this company. To facilitate that this company already has seven co-lending partners, a retail AUM of INR6,100 crores, a loan book on its own balance sheet of INR2,900 crores and ample equity capital of over INR3,000 crores.

For some time now, we have been talking about the AIF platform. In one of the calls, I had mentioned that while it is an important earning source, the management team was engaged in stabilizing the transition of the NBFCs within the structure. We believe that, that transition was managed in a fairly stable manner through quarter 2 of fiscal '25. Since then, the focus has also included a buildup of the AIF platform.

As we speak, we are evaluating a transaction in which we, along with our partners, have an in-principle agreement to finance up to INR500 crores at an IRR of 18%. This will be in line with our asset-light model where the contribution from our company will be 10% to 15% via this, we will start the process of moving towards this target growth AUM of INR15,000 crores. And hopefully, as we move forward, the transaction speed will pick up.

Next slide, which is Slide 6. We would just like to remind you of our growth product suite between Sammaan Capital and Sammaan Finserve. Sammaan Capital is targeting home loans with an average ticket size of INR30 lakhs and LAP or MSME loans or secured MSME loans of INR75 lakhs with a 9.9% yield target for home loans, 11% yield target for LAP loans.

Over a period of time, our funding idea would be with a 6-month lag, we would want to achieve the book to have gotten to a stage of about 40% of loans being assigned -- and with a 2-month lag, we would like to see 60% of disbursements being assigned via the co-lending structure. These are all principal amortizing equated monthly installment loans.

Similarly, Sammaan Finserve is focused on pretty much the mortgage lending only. Home loans are with an average ticket size of INR15 lakhs, LAP loans of INR25 lakhs. This will have about 40% of the loans on its books. Again, it follows an equated monthly installment system.

Even though we are licensed as an NBFC, I had mentioned in the past that we have no intention of diversifying at this stage into products that this management team does not have significant experience around. This product suite, again, is a message to our wider stakeholder audience that our focus is very, very clear. These are the products that we intend to focus on completely. Our people, our distribution and the entire technology system is geared up to make us very, very competitive and scaled up in this product suite.

If you look at Slide 9, the scalability of this business is demonstrated by the fact that we have an experience of having done transactions with 24 banks and financial institutions to the tune of INR91,508 crores. Very few NBFCs can boast of having done such volumes of business through their life cycle. And this is just one portion of what we have been doing in the last 15, 20 years.

This INR91,508 crores is a number that we have done over the last 6, 7 years. Banks have really profited from it. They have seen this INR91,000 crores come down today to about INR20,000 -- sub INR20,000 crores with a 90 days past due of only 54 basis points.

Now that after a long, long time, we've stopped looking at the rearview mirror for 100% while driving. We continue to look at the rearview mirror, which is our legacy business, but a large portion of management team's focus is now on looking ahead and driving. Distribution becomes an area of core focus. We have been doing some realignment of our branches.

We stand at about 214 branches consolidated for both the companies, and we expect this to be going up at a pace of about 25% per year for the next 3 years. We should be at over 300 branches, 300 to 330 branches by fiscal '27. We continue to have very stable relationships with our co-lending partner banks. Seven of our bank partners have relationships at Sammaan Capital and at Sammaan Finserve both.

This is a model where we are carrying minimum ALM risk, which we believe and we've spoken about causes the maximum vulnerability to an NBFC. Through these partnerships, we are confident that we have created the base for compounding our earnings for at least the next 10 to 15 years.

Our bank partners are supporting us. The on-balance sheet borrowings have grown 3x in a comparable period versus last financial year. While year-to-date, we have borrowed roughly INR9,248 crores of long-term term borrowings, either in bond structures or bank term loans. These are new borrowings. The rollover of our cash credit facilities, etcetera, continue versus INR2,951 crores in the same period last year, which is a growth of 3x. 12 banks and financial institutions have sanctioned fresh term facilities in fiscal '25 to date.

The other investment that we had been making around doing retail public and HNI focused public issues is gaining in traction. And now we have over 85,000 investors who hold our NCDs. One of the shortcomings of our business model is that we do not have a deposit-taking license. This is the way we are trying to mitigate the shortcoming.

Slides 11 and 12 are probably the most important slides. We've been speaking about aligning our strategic priorities, making sure that we are giving an update on these boxes, good or bad on a quarterly basis. As I mentioned earlier, the legacy AUM has now declined to under INR27,000 crores. The growth AUM has expanded to approximately INR35,000 crores, moving steadily towards the consolidated growth AUM target of INR1 lakh crores.

The annual incremental disbursal has moved up a little bit from last quarter, and now we are trending to INR15,000 crores. We still have a long way to our fiscal '27 target, but we have the people in place, the technology in place. And as we expand distribution, we should be able to get to a INR35,000 crores kind of run rate.

We were doing this INR35,000 crores number through calendar '17 and '18. So we've handled these numbers. We've handled the scale, 7, 8 or 9 years later, we will only be that much more mature. So I'm quite hopeful that not only will we get to a disbursal of INR35,000 crores.

The more important point is as far as the growth AUM target is concerned as well as the incremental disbursal target is concerned. More important than the numerical number, the qualitative number, what goes including into this incremental disbursal is far more important.

What we monitor is the pace at which we are able to churn, credit quality, how many partners are buying our loans? Is there any sort of chunkiness building up? Is there enough diversification? What is the ROA that we are generating per loan, so per unit economics are very important. And that really defines how much of disbursal do we do in the next months. If we continue with this kind of a focus, I'm very sure that our incremental ROA, which is at about 3% will certainly increase to 3.2%.

There is work in progress around our cost/income ratio. We are capacitized for a significantly higher quantum of disbursal and book management. We have continued to make this investment for a fairly long period of time. And I hope now, the time has come to also get advantage out of this investment.

As the cost-income ratio improves, the ROA will steadily also improve. The net NPA ratio currently is practically half of what the goal is. That's partially due to the tactical provisioning that we landed up doing through the structuring that we did in quarter 2. On a steady-state basis, we continue to believe that this business will have an 80 to 100 basis points credit cost.

Sammaan Finserve, which is a subsidiary which is currently a key management focus item, has now a balance sheet size of INR7,250 crores, which is actually very close to the fiscal '27 target, and that's largely because it still continues to be highly overcapitalized. It does not need any capital whatsoever. The disbursals, much like Sammaan Capital have to grow significantly.

We are investing in the people and the structure to get to an annual disbursal target of INR9,000 crores. The AUM, if it continues to steadily increase its disbursals, will comfortably get to about INR15,000 crores. The ROA is a function completely of scale. As the scale improves, the ROA will improve and consequently, the ROE will improve. This is a business of investment. It has huge potential in being able to generate a 5-plus percent ROA.

We are fairly sure that with the right team, which should be on board over the next few months, the handing out of appointment should be completed next month itself. And with the expansion of the branches that we are already making, the INR150-odd crores AUM that we are targeting by fiscal '27 with the qualitative aspects that we spoke about in Sammaan Capital, very similar, should certainly happen.

We now would request you to move over to Slide 14 and 15. These are somewhat new slides we have introduced into our earnings deck. We believe, like I mentioned a short while ago, we spent enough time driving while solely looking at the rearview mirror. It is only with the grace of what that even though we were looking at the rearview mirror, we did not meet with an accident from the front. We still continue to look into the rearview, but a large part of our attention is in driving by looking in front.

The team has been focusing on the growth AUM, the wider team, and we have been steadily growing. So from INR26,000 crores in the fourth quarter last year, we are now up almost INR9,000 crores to INR35,000 crores. In the meantime, in this year, we have disbursed about INR6,700 crores through co-lending, done 22,000 loans. And in order to understand the granularity of this book, the average ticket size is all of INR59 lakhs and the median CIBIL score is 762.

What we've also achieved is a common and standard credit policy across all our partner banks, a standardized credit appraisal document, a standardized credit process flow, standardized credit appraisal memos and other relevant formats. And from a sustainability of this business, a highly technology levered process, which gives great comfort from a customer service perspective as well as from a compliance perspective. Having laid this ground, now we can certainly increase the pace from this INR9,000 crores, INR10,000 crores that we have grown between quarter 4 to quarter 3 to a significantly higher number as we ramp up disbursals.

In order to give full color of what exactly are we pursuing in the growth AUM, it is largely a residential property-backed book. 81% of the book is residential property backed. It is a business which is focused on remaining asset-light. 66.4% of the book has already either been co-lend or assigned or securitized via pass-through certificates. It's a book which talks to the middle income group of India.

It's also the segment which has recently been a great beneficiary of the income tax breaks that the government of India has given through the budget. That being our target segment, I believe that we have a massive growth boost coming by way of this additional financial flexibility that the government of India has given to our target mass market. Our home loan product is split roughly 50-50 between self-employed and salaried.

Our loan against property product is a secured loan to the MSME market, where both the business owner as well as the business come on the loan structure. The collateral, which is generally the home of the borrower comes on the structure. As a result, 61% of our borrowers are self-employed and 37% are salaried.

This is a very high-quality book. The intended target of this book is our partner bank's balance sheet. So we have to do loans which are of an acceptable standard to them. And thus, a fair portion of the loan book, nearly half of what we have is sitting at a CIBIL score, which is north of 750. Banks and ourselves, we are generally even more conservative than what the regulatory caps are.

Even though in home loans of this ticket size, you can go up to 80%, 85%, a large portion of the book is sitting well below even 70%. Only 33% of the book is sitting at between 70% to 80%. All of these would be small ticket home loans. It's a well-diversified book. It's spread across several productive states of India. And as Sammaan Finserve increases its distribution and focuses more on Tier 3 and 4 locations, I would imagine that our focus states would double over the course of the next 12 to 18 months.

Credit quality is of no concern here. Credit quality is the single biggest moat that we have created. And therefore, it's the one item that senior management, even through the period where we were occupied in making sure that we were not falling short of our contractual obligations.

We continue to focus on this because this was clearly the franchise building that we were doing. 98.4% of the loans are in Stage 1. To summarize, 86% of the growth book is residential property backed. To sum up the scalability of this, 66% of the book is already sold down. It's geographically well distributed and operates at a very conservative loan to value.

A slide that we had introduced last quarter, we've expanded that in terms of giving more granular information around the legacy book. The rundown of the legacy book and the accelerated pace I've already spoken about. If you look at the table just below the bar graph showing the decline in the book, you will notice that cash collections in quarter 3 are almost equal to the cash collections in the entire first half. And if all goes well, we should comfortably be ahead of our pro forma second half cash collections that we had projected in quarter 2.

The recoveries are also on track to reach a number of INR1,650 crores. Within just the month of February, which is the current month, we have recoveries between what has already come in and what will come in, in our 5 different transactions amounting to over INR600 crores. So we are well on track to be able to get to this number.

I will go into a little bit of detail in the next slide. But just to kind of give you a flavor, over INR166,188 crores has been collected on the legacy AUM since fiscal '19. And the period, which is the 9-month period is the highest cash collections that we have witnessed in any comparable period.

Also, what's important, and this was a point raised through the tactical exercise of last quarter, we have realized over 70% collections from pools sold to ARCs. And now when we look back and do a static analysis, I was looking at this number, 70% is well, well ahead, almost 2x, 2.5x of what the industry is collecting. So clearly, our strategy of using ARCs as a platform to facilitate the collections is working.

We will continue to tactically use these. We have the financial flexibility without impacting the pre-provisioning operating profits to take whatever impact it takes to sell loans to ARCs and to collect. And you will notice that we will continue to report back to you the cash collections that we do via the ARCs on a static basis.

We had made an exchange disclosure a few weeks ago where to just give some flavor on recent recoveries so that you can get a flavor of the residual book. We have received INR175 crores from a premium project in Central Mumbai. This increase has increased to now INR325 crores. We have received a collection of INR210 crores, which was expected in March '25. We received that in December itself.

We concluded a INR220 crores transaction, which was a recovery transaction from a repossessed property via sale to a private equity fund. And we've received several court judgments, which have unlocked values of approximately INR750 crores of sale of inventory in the National Capital region. Some of these will directly contribute to our recoveries. Others will directly contribute to the cash collections.

Slide 18 is very interesting, and I would like to spend a minute on this or a few minutes on this. Our opening stock of the legacy book was INR120,000 crores. The legacy business as defined is all loans -- done pre fiscal '22, which by fiscal '22, we could not securitize. So business done between '19 and '22, which included the monies that were lent to projects to complete the construction was almost INR42,000 crores. The book paid, and this is not accrued, this is paid received by us interest of INR44,000 crores.

If we look at the breakup, we received repayments and collections of INR122,000 crores. We did refinance of INR31,000 crores, did portfolio sales of INR11,900 crores. This is how we received the cash. Approximately INR13,000 crores on a net basis through this period we wrote off or provided. And this is how we have achieved a closing number as of December of INR27,000 crores.

Why we did this exercise was to clearly and mathematically establish two facts. One, when we speak to our stakeholders about the legacy book, there is a perception that this is a problem book. What I want to emphasize through this slide is that from March '19 on a net basis, this book, net of provisions, etcetera, this book has yielded us 11.7%.

If we look at the total provisions and write-offs of INR13,418 crores on a static book of INR120,000 crores and add to that the INR41,000 crores of disbursals that we did, you will get to a static annualized credit cost of 1.5%. The rest of the book continues to earn up approximately 12%. So this is not a problem book. This is not a book which met with a significant accident. This is a business we chose to run down since it is a business which requires financing on balance sheet. which has resulted in our gearing going to almost 9x.

As management, we are comfortable with a gearing of 2x to 2.5x. Therefore, this business does not fit into our long-term strategy. Having run down so much and come down to these levels with an annualized credit cost of 150 basis points, I hope most of you now stop worrying about what more is to come and how much will need to be provided. We have enough provisioning covers to be able to take care of this book.

Let's move on to Slide 20. As I shared earlier, our gross NPAs have declined to 1.14%. Our net NPAs are down 2.66%. And on that INR26,000 crores book, we have a 31% imputed provision cover. Our net incremental credit costs for quarter 3 fiscal '25 are within the guided range of 100 basis points.

The NPA levels are at their lowest levels. And to provide you comfort about the imputed provisions because it does have an element of INR3,400 crores of expected recoveries. We have already done recoveries of over INR3,600 crores. So this INR3,400 crores additional recovery is well within striking distance.

Moving on, the asset liability maturity continues to be very stable. We continue to have a liquidity coverage ratio, which is well, well above regulatory requirements and stood at 218% as of end of December 2024.

To conclude, I would say that as we transition, -- we will continue to operationally focus. The areas of focus are building the growth AUM. Within that, there is a specific scale-up focus around Sammaan Finserve, a setup and then scale-up focus around our alternate investment fund. Both should be scaled up in the next 6 months or so, and then they would also get into a regular delivery business.

That said, we would continue to have some sort of hiccups. We've updated the Stock Exchanges on a minor hiccup where through an interim order, the court has restrained us in a manner which we feel around usage of the brand Sammaan. We believe we have a very strong case, and we have already challenged the matter. The matter we are seeking for dismissal or quashing.

Thankfully, the other comfort that I have as the CEO is that our company derives its strength on distribution. It's a very young brand. Thus, I personally feel that while we will seek all legal remedies from a day-to-day business perspective, I don't expect any sort of a distraction to come our way. We will continue to focus on delivering for you what we have committed to you on Slides 11 and 12. And I see no reason why any of those numbers should shake up because of any distraction.

As we continue to collect, I've already shared, we will have all kinds of hiccups, all kinds of legal challenges will be thrown at us. We will continue to overcome those challenges. We've overcome significantly tougher legal challenges thrown at us. We've come through investigations and audits and whatnot. And today, as we speak, I think about 95% of our bandwidth can be focused on just execution, execution, execution.

On that note, I would like to express my gratitude again to the investors who supported us through the QIP, through all of our shareholders who supported us through the rights issue, through your collective contribution through the INR5,000 crores that you have given to us, you have enthused, the management encouraged it. And we commit and recommit to our single-minded focus on delivering to you on the strategic priorities that we have detailed through this earnings update. We are confident in our ability to create long-term sustainable value for all of our shareholders and the wider stakeholder community. That was the update for the quarter.

With this, now the management team is open for questions.

Moderator: Thank you very much. Our first question comes from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: Congratulations on a strong set of numbers and results. I had two questions. The first question was to do with the NPAs. Obviously, we've seen a significant reduction in the NPA levels. Could you just elaborate a bit more on is this a one-off? How do you see levels going forward? And effectively, how the reduction has been especially compared to peers? That's question one.

The question two was pertaining to Slide 15. Thanks for giving a bit more color on the growth AUM portfolio. And as you mentioned, 66% is pretty much the co-lending part of it. What I just wanted to understand here is that is about 9%, which is mentioned as retained portion 8.5%. Is this basically your retain -- your attention of the disbursed product co-lending model? And is this par alongside the co-lending partner? Or does this fit as sort of behind the co-lending partner?

Gagan Banga: Sure. So firstly, just to understand and it's a good input next time, we will structured answer because I get asked this question all the time. Co-lending is just one other form of assignment of loans. There are two options for assignment of loans. One is called direct assignment. The other is called co-lending.

The big difference between the two is a minimum holding period of 6 months and a minimum retention of risk of 5%. Whereas in co-lending, there is no minimum holding period. But the minimum retention of risk is 20%. Co-lending is further restricted only to priority sector loans. We are more focused on ensuring that a large portion of what we originate fits, especially capital fits into the co-lending structure.

Now both in direct assignment as well as in co-lending, the risk is shared on a pari-passu basis. The 5% or as a market practice, more than 10% that I minimum retain in direct assignment and the 20% that minimum retain in co-lending, which you see here as approximately 8%, 9% is not junior does not come after anyone. It is pass. As the borrower pays, they take 80%, 90% of what they are supposed to get, we take 10% to 20% of what is owed to us. If a borrower does not pay, then they take 80%, 90% of the hit, we take 10% to 20% of the hit.

So there is no senior junior. There is no first loss default guarantee. There is no credit enhancement. There is another structure, which is a more classic securitization structure, which we don't really resort to very regularly. We -- it is called the pass-through certificate structure. It is typically resorted to in loans which will be slightly larger in ticket size. There one gives a credit enhancement. The instrument gets rated and this is the target rating, the credit enhancement is prescribed.

And if the excess interest flow, so the customer is paying over the instrument coupon typically, and that is getting trapped only if the default is to happen over the excess interest flow, does the credit enhancement get dipped into. In our history of having done about INR25,000 crores of such transactions, and these are rated and monitored by a variety of rating agencies, there has not been a single instance where the credit enhancement has been dipped into. And this is anyways on a going-forward basis, a very small part of our strategy.

Sammaan Capital is a social housing company. 100% of what it does today is social between affordable home lending, all of which fits into the priority sector norms of the Reserve Bank of India. Even the MSME lending, which is secured by property, is priority sector for banks and that is our key focus area.

As for the other question around NPAs and credit costs, etcetera, our guidance for the credit cost on a total AUM basis has been detailed at 80 to 100 basis points annualized. And as I said, the fiscal '27 goal for net NPA is 120 basis points. We have used the provisions that got created through the various tactical steps that we took last quarter.

And we have created an additional provision cover, which has reduced the NPAs. But on a normalized sort of basis, the NPAs would be 100 to 150 basis points on an average about 120 basis points. This is net of the provisions that we will be making of around 100 basis points annualized.

Moderator: The next question comes from the line of Rishikesh from RoboCapital.

Rishikesh: So, sir, if I understand, we have added around INR9,000 crores growth AUM in last 9 months, and we would be adding around INR25,000 crores in, say, '26 and around INR40,000 crores in FY '27. So could you share what is the blended yield on that and spreads as well?

Gagan Banga: My friend, all of this is already detailed. So if you look at Slide number 6, we detail product by product of what the yields are, what the mix of the product would be. And if you flip back to Slide 5, we also talk about what would be the AUM on each company on a stand-alone basis and what is the targeted ROA.

So if you are to ask me on a blended basis, I would say Sammaan Capital would be generating about a 10.5% yield. Sammaan Finserve will be generating around 12% to 12.5% yield. And on that basis, we will be generating a 4-plus percent ROA in each of the two companies.

In terms of how we will get to this number, we have detailed the disbursement target. So next year, we should be disbursing around INR2,000 crores a month in Sammaan Capital. And the following year, we should be disbursing around INR3,000 crores a month, consolidated is about INR2,000 crores in capital and about INR1,000 crores in Sammaan Finserve.

Rishikesh: That is helpful. Can you also share the spread numbers, please? What would be the spread?

Gagan Banga: So the spread in our case, since we sell down the loan is not the correct way of looking at it. The 80% of the loan moves away from our balance sheet, which is why return on asset -- return on asset for the portion which stays back on our balance sheet is more relevant, where we are targeting 4% plus in each of the two companies. If you want a full detailed calculation, you can reach out to our Investor Relations team, and they'll run you line by line as to how we get to the 4%.

Rishikesh: Okay. Got it. Sure. Secondly, also on the opex part, our other expense has gone down quarter-on-quarter from INR134 crores to INR72 crores. And even our employee expense has gone down from INR200 crores to INR180 crores. So can you please throw some light over here? And how should we see this on a sustainable basis?

Gagan Banga: So last time, I had mentioned that there was a bunch up of the increment, and we paid the increment with a lag effect from 1st April sometime in the second quarter. And therefore, there was a heightened operating employee expense. The operating expense -- other expense typically moves up and down because of the way that ESOPs are getting valued. That's a fluid statement as far as IFRS 9 is concerned, and that makes the whole line slightly volatile.

Moderator: Rishikesh sir, may we request you to return to the question queue for follow up questions. There are several participants waiting for their turn. Thank you. The next question -- before we take the next question, we'll take two more questions. The next question comes from Megh Shah from Prospero Tree Asset Management LLP.

Megh Shah: So we are raising funds at around 10 percentage, 10.5 percentage. And you said that the yield for us is around 10.5 percentage. So how do we make profit on that?

Gagan Banga: Our flow cost of capital will be between 9.5% and 10%. And as I said, the -- we retain only a small portion of the loan on our balance sheet. For the portion that we sell down, we get a continuing trail income from the bank. So the bank will typically buy it at a lower rate.

So hypothetically, if we are giving them a home loan in Sammaan Capital, which we are originating at 9.9%, the bank would typically take that loan from us at 9.1%, which will give us a straight 80 basis points income every year. Plus the bank would typically also give us an annual management fees for managing the life cycle of the loan for doing the customer service, collections, etcetera. That would typically be in the ballpark of 50 basis points for the overall loan. So that becomes on our 20%, a very large contributor, almost 2.5%.

We also would be getting fee when we originate the loan on the 100% of the loan, we would typically in over 90% of the loans be able to attach an insurance product, which comes in handy to the borrower in the case of an unfortunate event of an accident or loss of life.

There also, we are able to make -- since the premium would come on the overall value of the loan on the portion that we hold back, it will be a 4x multiplier. This minus our operating expenses, which is on 100% of the loan and the credit cost, which is on the 20% of the loan that we hold, we make a 400 basis points return on asset.

So which is why I was explaining to the previous -- I was stating to the previous participant that ours is not a typical spread business where you borrow at X and lend at Y and your income is restricted to Y minus X. It's a business where we since we are outsourcing our liabilities and ALM, we continue to make a spread on the portion which is not on our balance sheet and therefore, is not funded by our on-balance sheet financing cost.

Moderator: The next question comes from the line of Damodar, an Individual Investor.

Damodar: My question is I'm a little investor. I have been investing in Sammaan Capital for almost 7 years. I hold a significant portion of the shares also. I mean my only question is when will our company be valued at 2x or 3x of the book value? I mean, just a prediction kind of a thing because investors have been not gaining much in last 5 to 6 years. So if you can give an estimate like when will all the agencies, rating agencies or the fund houses give recommendations like good old days of 2016, 2017? That's my question.

Gagan Banga: Sir, firstly, I'm thankful for your support. We are held by around 450,000 shareholders and each of you as individual shareholders are the backbone of the company. So thank you for that. As management, you may appreciate we don't really control the up or downward movement of the stock price. What we certainly work towards is achieving certain return ratios for our investors, which then may make the company interesting. We have detailed in -- on Slides 12 and 13, what our goals are.

So hypothetically, if the company was to get to 15-ish percent -- 18-ish percent ROE, which we are targeting and a 3-plus percent ROA that we are targeting, it may be better on a normalized market basis that you may consult your financial adviser, if you have one, to see what kind of a value can be ascribed to this company.

What I can assure you of, like I said a few times in the call, as a management team, we had already been working hard. Our efforts were more over the last few years to stabilize the company. Our shareholders by giving us the quantum of equity capital that we have received in the last 12 months have given us a different type of enthusiasm, a different type of strength. And it is with that enthusiasm and strength that I can tell you we are working even harder to make sure that we achieve these goals.

The good thing is most of the struggles that we had, which were distracting the management team are now behind us. And a large portion, if not all, of our management bandwidth is focused on achieving these ratios. Along the way, we will have hiccups. We now have the bandwidth and the wherewithal to manage those hiccups a lot, lot better than we could do a few years ago.

So nothing should be distracting us from these goals. And I'm quite hopeful that we will, in the given time lines, be able to achieve the goals. And that should hopefully create value for you, much like how valuable this company was, as you said back in the good old days.

Thank you. Thank you for sparing so much time through this call. Thank you again for your support, and I look forward to speaking with you next quarter.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question. On behalf of Investec Capital, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.