



“Sammaan Capital Limited  
Q2 FY '25 Earnings Conference Call”  
November 15, 2024



**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 the Sammaan Capital Q2 FY '25 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 this conference, please signal an operator by pressing star and 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. Thank you, and over to you, sir.

**Kamal Mulchandani:** Thank you, Darwin. Good evening, everyone. We have on the call, Mr. Gagan Banga, Managing Director, joined by other senior management of Sammaan Capital for the Q2 FY '25 results. I will hand over the call to Mr. Gagan Banga for his opening remarks. Over to you, sir.

**Gagan Banga:** Thank you. Good evening, everyone. Today, as I speak to you, I do with a deep sense of pride and determination, pride in the results that we've achieved and a determination to chart the future of sustained growth and excellence.

Before I explain the various tactical and strategic steps that we have taken through this quarter, I would like to focus first on the strong operating performance of the company. If you refer to Slide 3 of the earnings presentation. Pre-provisioning operating profit is up to INR828 crores from quarter 2 fiscal '25 and INR1,525 crores for first half fiscal '25, up from INR679 crores in Q2 last year and INR1,015 crores in the first half last year.

Aside of the one-time fair market value related provisions of approximately INR4,000 crores, which I'll spend a lot of time on, the adjusted PAT for the first half fiscal '25 is INR601 crores, in line with the PAT declared in the first half of last year.

Cash collections, and this is the most important point. Cash collections from the legacy book were at their highest in the first half at INR5,053 crores. If you recollect, during the earnings call of last quarter, which is quarter 1, fiscal '25, I had set a target for ourselves that we would be doing cash collections from the legacy book of approximately INR3,000 crores. I am happy to update this audience that we have done cash collections of INR3,104 crores. And I'll run you through some of the recent transactions during the course of this call from where this money has come.

It may seem from the provision number, etcetera, as if there was a blip in asset quality. I would like to confirm to you that this provision is merely tactical in nature, and it creates a large provision buffer for an even more rapid rundown of the legacy book. There are no new major slippages in the legacy book or in the new book whatsoever.

Additional effective provision cushion of INR4,050 crores against the consolidated legacy book now implies almost INR10,000 crores imputed provision buffer, which runs to approximately 30% of the legacy book today we carry as imputed provisions.

We've done a very deep scrub of the book. Again, we would go into details of that. As a result of that, gross NPAs are at their lowest in 22 quarters. Gross NPAs plus Stage 2 loans at their lowest ever point. Net worth in the parent, SCL, despite the provisions stand at INR21,000

crores, up by approximately INR3,000 crores since March of '24. Consolidated net worth is also up from INR19,792 crores at the end of March '24 to now INR19,979 crores at the end of September '24. Retail disbursements are now chugging along at a comfortable number of INR1,000 crores per month.

Two quarters ago, we had said that we will have 1 slide dedicated to the strategic priorities and we'll update all of our stakeholders on that in a dedicated manner, such that the tracking of the company's performance is that much easier. The legacy AUM has increased to -- sorry, has fallen from INR37,386 crores at the end of last quarter to INR30,918 crores, that almost like INR6,500 crore, INR7,000 crores reduction. The growth AUM, which is all the disbursements that we've been doing since fiscal '22, that AUM has increased from INR29,000 crores to now past INR32,000 crores, and we are well on our way to achieve INR1 lakh crores of growth AUM target by fiscal '27.

Annual incremental disbursements have increased to now almost a rate of -- touching INR15,000 crores annually. The incremental ROE, which is as an end target of 3.2% has now inched up to 3%. Incremental ROE has gone up to 15.8% versus a target of 18%, which we hope to achieve by fiscal '27. Net NPA is at 1.4%. We have to bring this down further, and this should come in line to about below 1.2% by the end of fiscal '27.

Cost-to-income ratio at the end of -- for the first half stood at about 25% as we gain scale and gain more momentum around our disbursements and the AUM, this is also coming towards the target of our fiscal '25 number, which is to bring it down to less than 20%.

So all the steps that we needed to take to build a diversified and granular retail business have been taken. The results of that are showing. The other focus area of rapid rundown of our legacy business, that is also happening and happening at a pretty rapid pace. And asset quality is supported by recoveries. There are steady recoveries, and the NPAs as a consequence, are the lowest in 22 quarters.

Now I would like you to refer to Page 4 of the earnings deck. From Page 4 -- in Page 4, what we are trying to establish is the impact of the rights issue, the equity raise that we had. At the time of the equity raise, in my earnings call at that time, I had mentioned that to bring back growth, we needed a trigger. And generally, equity capital raise is a great trigger. I'd also mentioned at that time that the objective of raising capital was tactical as well as for it to get the growth restarted.

I'm happy to update that as a result of that, the debt capital flow, which had been disturbed for about 5 years for the company, has now completely regularized. If you notice on Slide 4, in a comparable period, which is March to October in calendar year '23, we raised approximately INR7,300 crores. In the same period, March to October '24, we have achieved almost 2x of that. And if we go into November, it's already gone past 2x.

I would also like to clarify that these numbers do not include the rollovers that we do of our working capital facilities. Those are beyond that. And while in our ALM, we have a different

sort of an assumption. Otherwise, in day-to-day business, we assume that they would continue to roll forward.

The next slide that I would like you to look at is Slide 5, which is extremely important to put in context the steps taken by the company and why we believe those steps are proactive in nature and tactical in nature. We are all aware of the fact that there has been a change in outlook of the Reserve Bank. The Reserve Bank has been very, very hawkish as far as credit flow of some products from NBFCs and banks. There have been fairly stringent regulatory action happening around us with other regulated entities, both NBFCs and banks.

In that context, if you see Slide 5, our regulatory interactions are fairly robust. We got an approval from the regulators for de-promoterization last year, which was important. We then earlier last month, concluded our last financial year's annual inspection. And there was no impact on capital whatsoever. No fines whatsoever. Subsequent to that -- sorry, earlier, a few months before that, we had received the new certificate of registration for Sammaan Capital with some forbearance which were unique.

We also, in October, received a new certificate of registration for Sammaan Finserve. Why I am bringing this to everyone's attention is, again, to underline and highlight the fact that all the steps taken through quarter 2 fiscal '25 are tactical and proactive. That we would be taking tactical steps in order to run down the book more rapidly in order to pursue recoveries from parent borrowers is something that I have been highlighting in the last 2 earnings calls.

And there were specific questions. There were fairly specific answers to the extent that one can say. And the bottom line of this entire exercise is that thanks to cooperation of the shareholders, thanks to cooperation of the providers of equity capital, we've been able to take all the desired steps for a tactical rundown without impacting the net worth.

The net worth, as I mentioned a short while back, both on a stand-alone for Sammaan Capital Limited as well as on a consolidated basis, is now around INR20,000 crores. With a strengthened balance sheet and a focused retail strategy, and along with the excellent work that the team has been doing on all fronts, be it forwarding the retail priority or forwarding the cash collection target on the legacy book, we are now charting the path for accelerated growth.

We are not only looking at the growth of the AUM. I spent a lot of time last quarter talking about quality of the growth, making sure that the risk management culture and the compliance culture was at the center of everything that we do. If we have to make a lasting impact on the financial landscape in India, we will have to look at both the growth in AUM and profit, as well as the quality of this growth, which we are fully focused on.

In order to take this forward, we have utilized a license that we hold at a subsidiary level. Sammaan Finserve Limited is now going to be our designated vehicle for pursuing a new line of business, which we had been incubating for the last 2 years under the Smart City program. If you refer to our last few earnings updates in the product suite, we've spoken about the Smart City program. The incubation process is over. And now we are in the process of scaling at this company.

Sammaan Finserve Limited was a mirror image of the parent company. It has become a mirror image of the parent company over a period of time. We did a very, very deep scrub of the book in order to, at an arm's length, achieving fair market value and in full compliance with regulatory requirements, transfer what was not going to remain as a core asset for it.

As far as a business which is discontinued, with the help of advisers on both the legal, audit, valuation, etcetera, from names such as Deloitte, BDO, CAM and IndusLaw, we've done our transfer of assets. It has been done in the most transparent manner with a lot of rigor and diligence. And I'm quite sure it will lay down a very strong foundation for a very long growth trajectory, a very sustained growth trajectory in the affordable housing space, for Sammaan Finserve Limited.

To just put in context the degree of the scrub done locally on the opening book of Sammaan Finserve, when we started doing this exercise, the net NPA now left in that company is all of INR25 crores. That's the sort of a cleanup which has been done. This transfer also allows us to rightsize the capital structure of Sammaan Finserve. For the size of that company, it was overcapitalized. Now with a net worth of approximately INR3,000 crores, it's a very well-capitalized company. We've created a new growth avenue aligned with India's need for affordable housing, a sector that values innovation, commitment and also has a social impact.

Peer companies in this space typically trade at valuations of more than 4x their net worth. Given the size that Sammaan Finserve already is at with an AUM of approximately INR5,000 crores, the AUM of this company will become of relevant size very quickly, which also provides Sammaan Capital with an opportunity to utilize this as a quick monetization tool and bring in a strategic partner who will then further help to grow the affordable housing business.

Now spending some time on the business transfer from Sammaan Finserve to Sammaan Capital. Both the NBFCs today were conducting seemingly overlapping businesses. The -- what we have done is that we have effectively transferred the legacy business which was common from Sammaan Finserve to Sammaan Capital. Now the entire legacy book has been consolidated through this transfer of approximately INR3,000 crores, has been consolidated in Sammaan Capital Limited.

In the process of doing so, both companies, which is Sammaan Capital and Sammaan Finserve, with different objectives in mind, did a very detailed portfolio scrub. Some external advisers were also roped in, in order to facilitate the valuation of assets, loan to values, etcetera. Through this comprehensive and exhaustive portfolio evaluation, the brief given was that we should leave no stone unturned in ensuring that there is complete clarity around the portfolio. And we are absolutely ready to make sure that the commitment around the portfolio run down, as well as the recoveries that we are making, those will be achieved.

Our teams meticulously analyzed every loan on our books, took them forward 12 quarters to see loan by loan, month by month, what was going to be coming due, whether any of those repayments or the loans that were coming through for completion in terms of construction, whether there was going to be any delay in the construction progress or in the loan repayment progress.

As is also noticeable from our deck, the legacy book in our case is an interest earning book. The collections that we do are split between principal and interest. So the INR5,000-odd crores of collections that we have done are cash collections. A portion goes towards principal, and some portion is allocated towards the new interest. We also had to make sure that since there was a process of asset transfer involved, it is done in the most credible and impartial manner.

The regulatory requirements lead us to ensure that even though it's a 100% subsidiary which is transferring assets, it is done at an arm's length. It is done at a fair market value. It is done in a context that it makes business sense for both the subsidiary and the parent. So the process was adopted as if the sale was going to happen to a third party. Bids were invited from third parties, and we received 2 bids from third parties. All of this acted as a ground for us to be able to appropriately value the assets.

As part of the valuation exercise, a portion of the credit cost of approximately INR4,000 crores which has passed through the P&L of Sammaan Finserve was allocated to a complete cleanup of anything which was overdue. I earlier mentioned that the degree of cleanup can be put in perspective from the fact that this company is left with all of INR25 crores of NPA. A similar exercise was done at the parent level. And whatever fair market value discount was to be offered was then transferred to the parent as a general provision buffer, which can be utilized for any assets which the parent has carried.

Before I move forward, I'd just like to highlight that in the earnings call last quarter, one of the participants had asked me about the quantum of hit that we take from the rundown of the legacy book. And I clearly said at that time, why are you assuming a hit? I had gone down to say we will take tactical steps. But look at our past track record. Whenever we have taken such tactical steps, that has resulted in recoveries from cases which would have been otherwise practically impossible to recover in quick time.

Cost of capital is very relevant in our case. Time value of money is even more relevant in our case. And all tactical steps tend to increase the net present value of the effective recovery which we end up doing. At this stage, I'll give you some examples of cases where we took provisions in the past which enabled us to pursue recovery actions, which resulted in recoveries from cases which were otherwise chronically tough to recover.

There is a very famous building in Worli, which is amongst the tallest towers of Mumbai. A few years ago, we had provided for INR750 crores on our books. We took swift legal action, and we were able to turn around that asset within about 12 months of having taken this recovery action step. There's also a case in the NCR, where on a running mall, we have taken provisions of a large sum of money, put it through the SARFAESI process and recovered INR600 crores from an asset which we had classified as NPA and provided for. The provisions enable the recovery process. And we were able to recover our entire loan amount.

There is another case in the National Capital Region. It was recently reported, again, a stressed loan against which we had created provisions in the past. The transaction, which just concluded, is a transaction on a mall and an office of approximately INR1,000 crores. Such collections, as I mentioned earlier, are an outcome of provisions and help us do the cash collections, which

we've reported of over INR3,000 crores in this quarter and over -- almost INR6,000 crores in the first half.

For those who track annual reports, if you look at our financial year '22 annual report, you would notice security receipts standing there of INR2,181 crores. As of September 30, 2024, that INR2,181 crores stock of security receipts has already declined to INR500 crores. So from all of us know, asset reconstruction companies acquired stressed assets.

From these stressed assets -- when you sell to these asset reconstruction companies, you line up, taking provisions, making haircuts and so on. And via this sale, one is able to ensure that there is robust collection, which we have done off close to about INR1,700 crores in 2.5 years on just the book which was sold to ARC. Which is close to about 75% of the book.

These examples illustrate not only our meticulous planning, but also our ability to execute recovery strategies with precision and resolve. Our current provisioning, which has happened through this exercise, which is effectively rightsizing an overcapitalized subsidiary and using the capital of that subsidiary to make sure that the overall company on a consolidated basis is sitting with a provision buffer and extra provision buffer. And the entire book has been completely scrubbed.

At this stage, through this entire exercise, which I'll explain in a little bit more of detail, I would like to emphasize, assure -- just stopping short of guaranteeing, as there's no guarantees in life. But more than with almost 100% confidence, assure you guys that our track record of 145 basis points of annualized credit cost which we had in fiscal '23 -- '24, sorry, and about the same number in fiscal '23, that would now decline to around 80 to 90 basis points, sub 100 basis points on an annualized basis hereon. This provision buffer, as has been explained on the slide, will be -- is imputed provision. And as the book runs down, these provisions will also be written back.

Now if we can refer to Slide 15, please. Through this exercise, what we have achieved is creation of an affordable housing subsidiary with its own business plan, cleaned up NPA and Stage 2 loans across the entire consolidated entity, which is the Sammaan Capital Group, both Sammaan Capital and Sammaan Finserve.

Now we have a provision cushion of approximately INR4,050 crores. The imputed provisions now stand at INR9,575 crores, representing approximately 30% of the legacy loan book. As I mentioned a few minutes ago, the consolidated gross credit cost hereon will be 80 to 100 basis points on a running basis versus 145 basis points with favour in fiscal '24.

We've also significantly improved the financials of the parent, Sammaan Capital, on a stand-alone basis. This company is where we hold 95% of our borrowings. And any improvement in its financials significantly improves the probability of being able to get more capital at a cheaper cost. It's a stated objective that we have to be reducing our cost of capital. Rapid collections help us do that. Now the net worth stands increased by INR3,000 crores. The net own funds also stand increased by around INR3,000 crores. The asset quality -- reported asset quality of gross NPA, net NPA Stage 2, etcetera, have significantly improved. And further, we have a tactical

provision pool which will help us enable collections on the legacy loan, thereby improving the net present value of these loans.

We've also been able to achieve a clean separation of the business. We have a prime housing loan and an urban MSME loan business which is humming along well in Sammaan Capital and a new line of business which will be the future of Sammaan Finserve. A complete separation of processes, systems, leading greater focus to these distinct lines of businesses is being put in play. This will also aid in greater shareholder transparency, regulatory compliances. And in due course of time, it will enable us to find an able partner in Sammaan Finserve.

If we are to spend a few minutes on the new entity that we have created. If we move to Slide 9. The starting net worth of this entity is INR3,000 crores. We expect the entity to do about INR6,000 crores of disbursements next year, achieve an AUM of approximately INR10,000 crores next year, over INR15,000 crores in the year after. And by fiscal '27, get to profitability in the handle of INR500 crores with an ROE of around 15%, which can expand to past 20%.

When we run down the legacy book, I was often questioned as to, you are replacing a high-yielding book with a book that you are essentially doing around prime borrowers, and therefore, your spreads will be compressed. And overall, your ROA, how will it improve to the 3% that you're projecting. We were incubating this business. And now with the combination of this business, along with the origination machine, which has scaled up in Sammaan Capital, we are fairly confident that the consolidated ROA will get past 3% target that we've set for fiscal '27.

This is a large part of our growth business. The rest of the growth business is well discovered. We've been doing that. We've built a book of approximately INR30,000 crores there. At INR32,000 crores of growth AUM, now we have tipped over earlier, the ratio of the legacy book to the growth book was -- the legacy book was approximately 60%. This quarter, we have tipped that over. Now the growth book is around 55% of the overall AUM.

If you move to Slide 17, this will give you good snapshot of the legacy book. The first point to highlight as far as the legacy book is concerned is that this contains everything that we had done prior to fiscal '22. Prior to fiscal '22, let's say, at the start of our degrowth phase, the legacy book stood at INR1,20,000 crores. As we speak, this book has declined to INR30,000 crores. That INR90,000 crores of principal rundown. And tens of thousands of crores of interest, which has been collected in the process. Which has resulted in cash flow, which has been used to net reduce our debt by over INR82,000 crores.

A net debt reduction can only happen from collection -- cash collection. Our primary source of cash collection is interest and principal that we receive. The new book is still very small. Most of the INR82,000 crores rundown, which has happened via our collections from this legacy book, which I've shared with you, stands to the tune of approximately INR90,000 crores of principal has come down.

We are left with the tail of this book. And given the traction that we are witnessing that we've seen in the first half, we've seen in the second quarter, we are fairly confident and therefore, have been able to project that per half year, how much this book will run down by, which is

approximately INR5,000 crores to INR6,000 crores per every half year. Again, I would like to highlight that this is just the principal rundown. The interest portion is on top of that. Therefore, the cash collections which are anticipated would be on top of that.

To spend some time on the expected cash collections and the recoveries from what has been already written down and/or provided for. In the second half of this year, we are expecting INR7,650 crores of cash collections on top of the INR5,000 crores of cash collections we've already done. In the second half of this year, both quarter 3 and quarter 4 put together, we are expecting write-back of INR1,650 crores.

In the first half next year, we are similarly expecting cash collections of INR5,700 crores, followed by INR5,800 crores and recoveries to the tune of about INR1,670 crores next year. These numbers have been detailed to the extent of every loan, which month it has to pay what, whether it will self-pay or we will have to get the asset liquidated. And then a reasonable degree of time lag has also been built in.

Why we are being able to do this is if you look at the breakup that we have provided on the book, this book runs at a very moderate loan to value. If you look at the loan-to-value slide, almost 70% of the book today runs at a loan to value which is not even 70%. A large part of this book consists of collateral which is backed by residential properties. There are -- there were some malls which we are -- which we have either liquidated. There were some office spaces which have been sold. Now, a large portion of this book is backed by a granular residential property.

Only about 7% of this book is overdue, with Stage 2 assets at only 3.5%. What has been already classified as substandard is 4.2%. What has been written off would be a further approximately INR10,000 crores. So this book is largely current, paying both interest and principal. And therefore, our ability to work with these borrowers who are current and get them to pay in a systematic basis is very high. For those who are parent, we have taken them, created provisions against them, which as and when these assets get sold, the provisions will get unwound.

The other big advantage is that we've not ventured into Tier 2, 3, 4 locations as far as the legacy book is concerned. The larger ticket assets are best done where land values are high, and thereby, that has an immediate positive impact on the loan to value. If you see, our entire concentration is on the top 5 cities of the country: Mumbai Metropolitan Region; the National Capital Region around Delhi, which is Delhi, Gurgaon and Noida; then Bangalore, Hyderabad, Pune. Anything beyond that, which includes, Chennai, Kolkata and other larger state capitals, all of those is, give or take, approximately 5%.

Most of these assets have been completed or have received occupancy certificate. We need to spend only approximately -- by spend, I mean, disburse further loans of only approximately INR1,000 crores for the balance, 32% to also get completed. Most of these assets are at very advanced stages. Practically, every month, we are getting occupancy certificate for assets of approximately 200,000 square feet. So in the next 24 months, as these assets mature, we should be able to sell the homes or select from sales already done. And which will run into the cash collections, which we have summarized in the table below.

The cash collections that we have done in the first half. If you refer to the box on the left, these have largely come from a sale of a mall in Bangalore, where the transaction value was INR600 crores. I spoke about -- a short while ago about the mall and office in NCR, which was sold at about INR1,000 crores. There was a completed office building in Delhi, which was sold for about INR1,100 crores. And again, a residential property in South Delhi, which was sold at -- for INR100 crores.

Continuing with the analysis of the legacy book. I would request you to refer to Slide 18. If you look at this slide, in fiscal '20, we had a net worth of approximately INR15,000 crores against then a loan book of INR1 lakh crores. Which was the book built prior to fiscal 2022, which we now classify as the legacy book. This legacy book has since then declined now to approximately INR30,000 crores, in which the cash collection since fiscal '20 has been approximately INR70,000 crores. And the interest collection has been approximately INR25,000 crores.

While doing our planning around and doing the deep scrub and cutting provisions and doing all of that, we built a hypothetical scenario and said let's do a capital allocation process. So we attributed INR15,000 crores of our net worth of INR20,000 crores to this book, legacy book. This implies today that the debt to equity of the legacy book is effectively 1:1. The balance, INR5,000 crores, we kept aside for our retail assets, where the effective debt equity then is a very moderate 3:1. By the first half of fiscal '26, the legacy loan book will be down to INR20,000 crores. And as this pays down further, the released equity capital will catalyze the retail loan book growth.

I refer back to my opening comments, where I said I am extremely happy with where we are and what we've achieved in the first half in the year, which have gone by. And this is why I'm so happy, that this has now become a self-fuelling growth engine. As we do recoveries which we have projected in the next few quarters of INR4,050 crores, that's the quantum of write-backs which will happen, which will aid profitability and will also provide cash flows for the retail loan book growth.

As we mentioned, there are implied provisions now of INR9,575 crores. So the legacy book today is running on a 1:1 debt equity and has an imputed provision cover of 30% of the book. I hope with this, any and every concern around the legacy book that you guys ever had gets done and over with.

On a personal note, as I reflect on our journey, I have been often told that this rundown that we achieved on the book since 2019, the fallout of the IL&FS crisis, how the sector was hit, how we were hit. A lot of people tell me, you weathered the storm, you survived turmoil, and good job, Gagan, you've navigated the company through unprecedented challenges. If I think about this, that if I was to hypothetically hang up my boots today, what would be my legacy?

I believe it will be a legacy of being a survivor. I would not want to hang up my boots with the legacy of being a survivor. I'm here to build, build an institution that stands tall not just today, but for decades to come, for generations to come. And as and when I am to hang up my boots, it is my desire, ambition, passion and hope that I leave behind a legacy of being an institution builder.

I hope Sammaan Capital will be an institution that isn't nearly resilient, but it is inspirational. A company that sets benchmarks, redefined norms and leaves an indelible mark on the financial landscape in this company. The journey going forward and that is how we should think about institution building. And this is a message not only to stakeholders on this call, but to my team, is that we are building something which is timeless, something which embodies strength, innovation, transparency and excellent.

And I believe as the CEO, I know how to do this. Between 2009 and '19. For 42 quarters, we demonstrated consistent growth. Several people talk about that as our golden era. Every year, we distributed 50% of our profits as dividend without sales. And then from 2019 to '24, we had, in the light of severe turmoil in the industry, we had to do course correction.

While doing the course connection, we built a new business model, did an orderly debt repayment program, chose to voluntarily move from a promoter-led company to a truly Board-driven institution on professionally managed institution. Perhaps it's a very, very unique transition in the financial services sector. I am not aware of any such transition which has happened where a promoter-led institution of size transforms to Board-led, professionally managed institution.

While we were fraught with challenges, we work very hard to make sure that the trust of our stakeholders is not broken, which is why the focus on ensuring that our lenders never feel shortchanged, scared about the money that they've lent to us. And we were managing a borrowing program of INR1,20,000 crores.

As I stand before you today or sit and speak with you today, the time has come, and I'm confident that the time has come to build growth back. The foundation is ready. The vision is clear, and the winds of opportunities are at our back. The real estate cycle is on the upswing. It happens once in a decade. Demand for housing, particularly affordable housing, is surging, and the market indicators point to a sustained uptrend.

This cycle has been a tailwind for us in the past few years. And now we believe with this strong balance sheet and cyclical advantages, we are uniquely positioned to harness this advantage to its full potential. Thank you so much for your support, and I look forward to responding to a few questions from your side. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session.

**Gagan Banga:** Yes. I would just like to clarify. I believe the team, by mistake, had sent a work-in-progress version of the earnings update and another mail was sent. Please refer to the second mail while looking at the data points and kindly ignore the first mail. We've also uploaded the corrected version on our website and have also sent it to the exchange in Bloomberg.

**Moderator:** Thank you. We have the first question from the line of Sumit Bhalotia from MK Ventures.

**Sumit Bhalotia:** Hi, Gagan. I think this time around you've shared a lot of detailed disclosure of the legacy book. So that's very helpful. Two questions from my side, one on the legacy book and second on the new book that we intend to grow.

So on the legacy book, while you've have spoken a lot on the provision that you have done. just to get it right, so this is a one-time provisioning and now we are back to business as usual when our credit costs will dip to a much lower level than what we have seen for the last, say, 8 to 10 quarters. That is one.

Secondly, this transfer of assets that we did from SFL to the parent. Did that led to this INR4,050 crores of provision or is it in general provision for the entire INR3,000 crores of book that we hold?

**Gagan Banga:**

Okay. Thank you, Sumit, for the question. I would like to emphatically state, put this on record. There is no tail whatsoever to any sort of a scrub that we did. We've done a very, very detailed scrub, line by line, as I mentioned, looked at cash flows which are expected from borrowers for the next 12 quarters. This is indeed a one-time sort of an exercise that we did. The credit costs would be normalized at 80 to 100 basis points going forward. It's a growing business going forward. So the growth would reflect in the credit cost.

From the legacy book, we expect no further credit costs whatsoever. As far as -- I would also like to highlight that we got listed in September 2004. In 20 years, we have made close to about INR29,000 crores of profit. In these 20 years, we have distributed over INR12,000 crores of dividends. And there has not been a quarter where we've had to declare a loss. This is unprecedented. And if you do unprecedented things as management which is responsible, we obviously have done a very detailed DD. It's also not that I wanted to spring a surprise on anyone. And these are not exercises which are done in a month or 2.

If you -- with the investors with whom I had a chance to meet one-on-one during the capital raise as well as with a wider audience during the last 3 earnings calls, I have been talking about using our capital tactically to ensure that it is facilitating the rundown. At the same point in time, I have also been referring to the fact that we have stakeholders such as banks and rating agencies, which are sensitive to our credit ratios and our balance sheet ratios. So it's an exercise which has been done very prudently to make sure that the ratios improve. But at the same time, the management is tooled with being able to accelerate on whatever rundown of the legacy book we have to achieve.

As far as the transfer is concerned, the transfer came along with a general provision pool which can be utilized by the parent. On a stand-alone basis, on a consolidated basis, there is flexibility to do that. As I mentioned, whatever write-down of provisions had to be done were done first at the Sammaan Finserve level. And now the rest of the provisions which came up of approximately INR2,500 crores acted as a general provision cover. I hope I answered your question.

**Sumit Bhalotia:**

Yes, that's very helpful. The second thing is on the reduction of the legacy book. So we've reduced INR8,000 crores, almost INR8,000 crores of the book in the last 6 months. And so over and of the regular collection that we are having from say, Stage 1 of 92.5%, it is the recovery of the cash collection, which has helped reduce this book by that amount.

Going forward -- so 2 things, 1 is going forward this INR10,000 crores of reduction in the next 12 months that you have projected, what part of it are we looking at from offloading our assets

to a third party? And similarly, in the last recent transaction, list of transactions that you have said, have you taken any kind of haircut which is already baked in the provision that you've been taking?

**Gagan Banga:**

So if we've taken haircuts, it has been -- they were already provided for, and therefore, as I mentioned, there were no -- right at the start, there were no incremental slippages of any consequential size. If you transfer loan assets to ARC, it's in the most rare of rare situations that they part with cash. So it's typically SR. So any sale to an ARC would not result in cash collections.

When we are talking about cash collection and cash recoveries, that is real cash which comes in and hits the bank account. And that can only come when either the loan is repaid voluntarily or the loan is repaid via a sale of asset voluntarily or by a forced sale through the recovery process. Only these 3 situations result in a cash collection and the reference that we make of approximately INR 10,000 crores and INR 1,600 crores of recoveries, etcetera, these are all cash collections and cash recoveries that we are talking about.

**Sumit Bhalotia:**

Okay. Lastly is on the new retail book that we intend to grow and you've given targets also the growth AUM will move up almost from INR 32,000 to 3x to INR 1 lakh crores plus by '27 plus. So if you can just elaborate a little on what is the infrastructure that we have, how are you so confident that we'll be able to increase our disbursement 2,000, 3,000 a month? If you can throw some light on that, what kind of strength addition that you have done in terms of sales team overall structure?

And also, what kind of liability side support you'll be needing, so what kind of capex you need to achieve that INR 1 lakh crores, what would be the off-book on that? And how much -- whether the legacy book rundown capital release will be more than sufficient to achieve these targets that you've have given.

**Gagan Banga:**

Thank you. So we are now staffed at approximately 5,700 people. Back in 2018, when we used to do INR 3,500 crores of disbursals a month, we were at a similar staff strength. So that's the kind of capacity that we are choosing to carry. As we build out the Sammaan Finserve platform, we will need to invest in the top deck of the management team. That management team has to be completely independent of Sammaan Capital Limited management's team. And we are fairly confident based on our interactions with professionals, that we should be having the management team in place before the end of the financial year.

The boots on the ground, they're already in place and will continue to keep moving up as that specific book numbers ramp up, those numbers we have detailed and I ran you through those numbers as well. So as we look to increase disbursals at Sammaan Finserve to about INR 500 crores a month through the course of the next financial year, that company on a stand-alone basis will have -- will be employing approximately 2,000 people. To facilitate that INR 500 crores disbursal. Most of that 2,000 people are already in play. The guys at the very, very top, who will also then help in bringing a partner -- a strategic partner in quick time. Those folks should be in place by the end of the fiscal year.

Now on a consolidated basis, including the INR15,000-odd crores AUM, which will get built up in Sammaan Finserve, the balance AUM is getting built up in Sammaan Capital. Sammaan Capital is running now at approximately INR1,000 crores of disbursements a month. In this financial year, we have done co-lending and assignment transactions of approximately INR4,500 crores. So our capital requirement on balance sheet is minimal. I don't visualize Sammaan Capital debt equity going beyond -- significantly beyond 2x in the future. And Sammaan Finserve Capital -- sorry, gearing also by fiscal '27 should be in the same ballpark of about 2x.

So we have capital requirement, debt capital requirement for our -- the portion that stays on balance sheet. But within what is being collected on a cash basis, as well as now a stabilized debt capital flow, which I highlighted that in the last few months, we've already borrowed close to about INR14,000 crores on and off balance sheet. I think we are well placed to think about the kind of disbursements that we are -- we'll have to do to take us to a INR1 lakh crores of AUM in the next 2 financial years, 2.5 financial years.

**Moderator:** The next question is from the line of Prithvi from VicAsset.

**Prithvi:** Hi, Gagan and team. Thanks for this presentation. Just to follow up further on the discussion on Sammaan Finserve. Can you please shed some light on how you're thinking about monetization plans for the subsidiary?

**Gagan Banga:** So before I respond, I'd like to thank Oaktree for all the support that it gave us through our -- through the really tough time, and you guys have been brilliant partners, and I hope we can take this partnership and explore various other avenues as we go forward. Now that -- especially now that the firm is in growth mode.

As far as the monetization plan is concerned, we are extremely mindful of the fact that there is RBI forbearance, which is there where an NBFC is owning an NBFC. And we will have to work with the regulator to make sure that at an appropriate time, we desubsidize this. At the same point in time, we have enough capital out there to grow this business and take it up to a certain size.

As I mentioned, we are in the process of putting the top leadership in place for this so that the company can be run independently. I believe somewhere once the leadership team is in play and the scale has been achieved in guidance with the regulator, we will decide on the appropriate time for monetization.

What we are very clear is that we will -- we are in the process of building a vehicle which is very valuable and can get quickly monetized. The due diligence on such a type of an organization is practically a 2-day job since the loans are just so granular. I can't put an exact time line. All I can let you know is that it's on our agenda, but we have to do it in a manner that we are also able to maximize the return for Sammaan Capital shareholders while making sure that we are fully compliant.

I, earlier in the call, have spoken about the compliance culture, which is facilitating a healthy interaction with the regulator, which is always very, very important and has become even more

important in the current context of whatever is happening in the regulated entity universe. So bearing all of these in mind, I think we will move forward in the course of the next few quarters.

**Moderator:**

The next question is from the line of Siddharth Dahiya from Aberdeen.

**Siddharth Dahiya:**

We are holders of your bonds, as you may know. Just wanted to check, have you had any discussion -- recent discussions with rating agencies around this? Anything that you can share, any feedback from them? Would there be any pressure on your ratings, on your international ratings?

**Gagan Banga:**

Thanks, Siddharth. Thanks to the Aberdeen Group for always supporting us. I think of the \$3.5 billion that we've raised over a period of time overseas, you must have taken 10% of that. So thanks so much of that -- for your support, which is continuing.

We have obviously proactively reached out to all the critical stakeholders with whom we could have less unpublished price-sensitive information. Rating agencies are such partners, which anyways have a much deeper look into our numbers as compared to the wider market. The interactions have been healthy. The transaction has been structured in a manner where the various credit ratios, balance sheet ratios have only gotten stronger.

If we look at Sammaan Capital Limited on a stand-alone basis, the net worth has increased since the start of the year by INR3,000 crores. If you look at it on a consolidated basis, it's gone up. Sammaan Finserve has practically no external borrowings. As I mentioned, 95% of our borrowings are housed in Sammaan Capital. So that's the balance sheet, which is of relevance.

In that balance sheet, on an operating basis, it has reported INR115-odd crores profit. For the full year, it will have a profitability in the handle of INR450 crores. Given that, the LD capital, the very moderate debt equity, I feel that the conversations with the rating agencies have been on the lines that we are creating buffers for the future. And this will also enable growth to come by.

Our recovery performance and our Stage 2 numbers, Stage 1 numbers, if you offer just 1 minute to refer to -- yes, if you were to refer to Slide 14 of the presentation, you would notice that the Stage 2 assets plus the gross NPA assets, which, as of June stood at INR4,415 crores, have declined to below INR3,000 crores. The gross NPA, which was 2.7% has declined to 2.4%. And the net NPA has also declined.

So all of the provisions have been used for specifically improving the provision coverage of any asset which was overdue as of June versus trying to cover for any fresh slippages, which has been and shall be explained at length to the rating agencies. In this context, I'm quite optimistic that we will continue to work positively with the rating agencies. I'll take 1 last question, please.

**Moderator:**

The next question is from the line of Abhiram Iyer from Deutsche Bank.

**Abhiram Iyer:**

This has been really helpful to us in the investor community and in the stakeholder community. I just had sort of a bit of clarification needed. Now when we transferred the INR7,200 crores out of the regular track record INR5,500 crores, you mentioned that the fair value, call it, give or

take, about \$0.50 cents, what was sort of achieved and we're obviously doing it at an arm's length. Could you just make it clearer on why this sort of estimation would not be required on, say, the remaining 20,000 -- INR28,000 crores, sorry, which are already -- were already present on -- in Sammaan Capital before -- outside of this transfer in terms of the legacy book?

**Gagan Banga:**

Sure. That's a very, very relevant question. And I tried to explain, but I think more explanation will only make it clearer. The approach that we took while transferring Sammaan Finserve was one of making sure that it is completely at arm's length, and we achieved fair market value. If we look at the typical cost of capital, if anyone's looking at acquisition of certain assets, they will be looking at a cost of capital of around 20%.

And they would also be looking at the time value in which that 20% would get realized, but the discounting rate would be down 20%. They would look at the basis bit of interest. And then they would arrive at a value, presuming that the expected credit losses have already been baked into the provisions.

So the first job was that the expected estimated credit losses were provided for. So we ran that book number down. So we went with approximately INR5,500 crores of assets, on which a discounting exercise of 20% was done and some adjustments surveyed basis the net present value and so on to arrive at the number of approximately INR2,500 crores.

Now if you look at Sammaan Finserve Limited, Sammaan Finserve Limited is a loaning company. It has given out loans which will come out -- come due over a period of time and will get paid down over a period of time. Typically, these loans have contracted tenures of 7 years, they would have a residual -- actuarial life for 5 years and so on. There is also, therefore, in liquidity sort of a discount which comes in. So between a discounting factor and liquidity factor and other basis points risk, etcetera, the fair market value discount was built in. This is also all detailed in Slide 11.

The important point and just to answer your question more directly, is that from a provisioning perspective, the provisioning on the entire book had already been done by the time that this exercise of fair market valuing happened. Now Sammaan -- now think of it from a Sammaan Capital perspective, Sammaan Capital is fully capitalized from an equity point of view. Its incremental debt capital, comes at a cost of, give or take, 9.5%. So if we think about discounting this, we would do at a discount rate of 9.5%. We would actually land up paying a premium, because we are going to be getting a spread on this book.

So our outlook versus the outlook of, let's say, any credit fund which would be buying this is completely different. Which is also reflected in the fact that when credit funds give out money - - and we've done business with the likes of Oaktree, who we were speaking to a short while ago, Davidson Kempner, PAG, etcetera, then we would -- when we were doing business with them, we would get like \$0.40 to \$1.

Today, if you talk to most of these guys, the monies have gone back to them. Some of these credit funds are in touch with me to partner with me for putting money to work in AI structures, etcetera. I didn't want to complicate our conversation further in this quarter. So we did not bring

that topic up. But that's what's happening. So their approach is very different to a prime lenders' approach like Sammaan Capital. Since it has to be done at a fair market value, it has to be done as if Sammaan Capital is also a credit fund, and therefore, the discount.

The other advantage to us was that the discount, which came with the book came as a general provision, which then becomes a provision buffer for us. So again, in no way, remotely also does that INR2,500 crores have anything whatsoever to do with the credit cost requirement of the book at Sammaan Capital Limited.

Sammaan Capital Limited has, through this entire transfer, built up imputed provision buffer, which is anyway, 30% of the legacy book. So if I look at any which way, left, right, up, down, it does not reflect on the credit quality. B, there is no risk whatsoever since we've created big, fat provisions. I hope I answered your question.

**Abhiram Iyer:**

Yes, perfectly, perfectly. Just 1 follow-up, if I may. Sorry, I'm mindful of time, but in case of the INR63,000 crores AUM, if I recall the last time around in terms of split about 50-odd was retail mortgage loans. What's the split now, especially considering we've run down a bit of the legacy book and written down some of the -- via provisions as well? So a very broad, obviously, not exact numbers, but a very broad split of, say, retail loans, LAP loans and the larger ticket type loans?

**Gagan Banga:**

If you're talking about the legacy book, the legacy book consists of loans to real estate developers, larger home loans, larger LAP loans, loans to corporates, etcetera. And the rundown which is happening in loans is primarily on account of what they're paying on a monthly basis as is their repayment schedule. These loans don't run on a moratorium of any sort. So there is a little bit of principal which comes back every month, every quarter, etcetera.

So the rundown would typically be of the overall book. There is no 1 subtype of the legacy book which will typically run down faster than the other. It will -- since most of the rundown is happening, basis regular repayment.

There is some portion of the book which is NPA, where we will do sales, which is a small portion of around 4.2%. There is some portion of recovery which would come from asset sales. Where I shared with you, there is a pool of INR10,000 crores which we continue to work with. The good book of the legacy book, which is roughly 96%, is all running down in pretty much a similar ratio. All subparts are running now in pretty much the same ratio.

Thank you so much for patiently listening to us. In some parts of the world, it's already pretty late. It's a Friday evening. So please, I wish you all a very happy weekend. It's also the holy occasion of Gurburab here. So I wish all of you a very Happy Gurburab and may God bless us all. Thank you.

**Moderator:**

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