"Equitas Holding Limited Q1 FY19 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and welcome to the Equitas Holding Limited Q1 FY19 Earnings Conference Call.

We have with us today Mr. S. Bhaskar – Executive Director & CEO, Equitas Holdings Limited; Mr. P. N. Vasudevan – Managing Director, Equitas Small Finance Bank Limited; Mr. Sridharan N. – Chief Financial Officer, Mr. HKN Raghavan – President (Inclusive Banking), Mr. Sanjeev Srivastava – President & Country Head – Branch Banking Liabilities, Product and Wealth, Mr. Bhadresh Pathak – President (SME Banking), Mr. Ajit Balakrishnan – Head (Emerging Enterprise Banking), Mr. Alok Gupta – Chief Risk Officer. Mr. Natarajan M – Head (Treasury), Mr. Dheeraj M – Head (Strategy and IR) and Ms. Srimathy Raghunathan – Chief Financial Officer Equitas Holdings Limited.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Bhaskar. Thank you and over to you sir.

S. Bhaskar: Good afternoon everyone. Welcome to the Equitas Holding Limited Q1 FY19 Earning Call. Our company had a profitable quarter and during Q1 the operations of our bank progressed well. Total advances as of June 2018 stood at Rs. 8,926 crores registering a growth of over 27% with a strong growth across all segments. PAT for the quarter was at Rs. 35.4 crores; it was more than the full year PAT for the previous year indicating the return to profitability of the bank. Annualised ROA for the quarter was at 1.0% and we continue to witness good traction in all the divisions of our banking business. Now I hand over the call to P.N. Vasudevan to take you through the performance of the bank.

P.N. Vasudevan: Good evening to all of you and thank you for dialing into our call. We had a good first quarter as we witness pickup in economic activities in the tier 2 and tier 3 cities. The advances represent a 27% year-on-year growth. The growth was driven by performance across all the loan segments. The newly launched products have also seen good traction; the once we introduce last year. Now they make up about 15% of the overall advances. The banks MSE offering which include unsecured BL and term-loan and CC/OD products has also crossed Rs. 500 crores of advances in the current quarter. As per our strategy mentioned earlier our micro finance advance for the first time in the last six quarters has shown improvement from the previous quarter by registering a 6% growth Q-on-Q. Micro finance advance this year is expected to grow by around 15%-20%. Against the earlier estimate of around 35% advance growth, which we had mentioned in the last concall, we believe that we should be seeing a 40%+ growth for the current year.

Our NIM has gone down to 7.2%, from 8% in March, primarily led by growth in investment book of about Rs. 800 crore during the quarter. This largely was because we had upfronted our borrowing to protect our cost of funds in a rising interest rate scenario. However, our lending spreads at 11.2 compare well with 11.4 in March 18 and if we net the OPEX to assets our net yield actually improve. In terms of asset quality, our GNPA remain stable at around 2.84%, versus 2.72 in March 18. The NPA relating to micro finance also has shown the old quality that we used to have before demonetization and it remains flat at around 0.9%.We are continuing to maintain our provision cover at 47%.

During the previous call I had mentioned that we would be looking to significantly leverage existing infrastructure of 375 liability and 500 asset branches. I am happy to inform that our operations have starting to show signs of improved productivity, especially because of the growth that we see coming from semi urban rural and the retail franchise. This has improved our productivity and our strategy is to further leverage this network without setting up any additional branches. This we believe will help keep our Opex in check. We see a 12% growth in Opex for full year as against the previously mentioned estimated Opex growth of around 15%.

On deposits we continue to show good traction with a total customer deposit moving to more than Rs. 5,700 crore which forms about 50% of our total borrowings. Within this deposits, CASA ratio is pretty healthy at about 32%. Fee income from our liability franchise continuous to show good traction.

To sum up we are seeing strong growth in all of our lending products and our book is fairly diversified now. The portfolio quality continues to remain healthy & stable and we are seeing good improvement in productivity. And our liability franchise traction continuous to do well. We believe that we are on track to achieve the growth targets, while keeping our cost under control. With this, I would like to hand over to the operator and we will be happy to take questions from your end.

Moderator: Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

Manish Ostwal: My question on the cost of funds movement during the quarter sir. the interest cost increased 20% quarter-to-quarter whereas income increase only 10%, so clearly impacting our net interest income growth which is 2% quarter-to-quarter, so one is what is our marginal cost of fund movement during the quarter and secondly what is the overall outlook on the net interest margin going ahead purely from a cost of fund perspective?

P. N. Vasudevan: You see our cost of funds between March to June has moved from 7.9% to 8% more or less remaining at the same steady level. In terms of NII advances grew by 27%, but interest income grew by 17% that largely because we had as I mentioned earlier upfront lot of our borrowing and those borrowing were actually put in short term in those month which obviously yield is much lower. I will also get Natarajan M, our Treasury Head to join this question.

Natarajan M: Partly we have invested in liquid funds, which adds as a cost of borrowing it adds as a cost. The income is booked under other income, so it does not come under interest income. To that extent you will see slightly lower interest income on that front.

Manish Ostwal: So going ahead how do you see the margin outlook net interest margin going ahead whether we can see pressure because of cost of funds or will be in a position to compensate through increasing yield?

P. N. Vasudevan: So our NIM you know is going to be little lower on the lower side it is 7.2 in June it may be either stable there or marginally go up as we use our excess borrowing to lend into business and not from keeping into the investment so that should help keep the NIM going up a little bit, but we are still believe that the interest rate scenario is looking like a little bit on the uppish side and so we are still on the job of trying to upfront some more of the borrowing from the next one or two quarters also which will add pressure on the NIM as far as the NIM part of it is concerned, but that is a tactical thing that we will do keep based on our estimated interest rates moments. So that something that will depend on how we view the interest rates in the next one to two quarters, but otherwise as I mentioned earlier our lending yield if you look at it actually there is no issue as far as that is concerned our yield at the net spread on our advances at 11.2 is again 11.4 of March and there is also a 40 bps reduction in the Opex during the quarter so actually net of Opex there is actually 20 bps increase in our net yield, but the NIM is something that we are not very clear about how to plan it, I mean we are not really going to be able to predict it now because it depends on how much more we will try to upfront the borrowings.

Manish Ostwal: Your second question which your comment about 12% operating expenses growth for FY19, so that clearly shows we are on the road of improvement of cost to income ratio going ahead because it was peak at 84% now in Quarter 4 it was 77% now it is 76% and given the pace of the balance sheet growth I think the cost to income ratio for the coming quarter, so from a medium term perspective how do you see your overall return profile because now the transformation process is reasonably over and we are now back to growth and we have seen the growth in the micro finance book which is 6% quarter-to-quarter after so many quarters. So how do you assess the overall profitability especially ROA front because the improvement cost to income ratio and the reduction of credit cost?

P. N. Vasudevan: As you rightly mentioned the growth has come back so to say and even microfinance which I had mentioned earlier after nearly six quarter that we consciously reduce the microfinance book to try and get the microfinance contribution reduced to the overall book. This year we had mentioned that microfinance will grow about 15% to 20% this what I had mentioned earlier, and the first quarter has shown about 6% quarter-on-quarter growth. So as you also mentioned the cost to income ratio has come down this quarter compared to last quarter and with our Opex likely to be remaining under control and the advances growing the cost to income should also keep going down as we go forward. So all this will have its impact as far as ROA is concerned.

Currently we are at about 1% ROA while I am not giving an indicative ROA number for the rest of the year, but clearly it should be on the upward trend.

Manish Ostwal: My question regarding in FY16 we had a ROA of 3.09%, so in two to three years when we can reach that level again that was my question not for this particular year?

P. N. Vasudevan: The 3.09% was for the NBFC format the ROA of an NBFC is very different from ROA of banks because in an NBFC out of a total balance sheet size of Rs. 100 advances will be close to about Rs. 95 to Rs. 97. So the non-advance book from the balance sheet it will be less than 2% to 3%. So the ROA will look always elevated from an NBFC perspective. From a bank you know that book contains lot of our investment book and all that. So the NBFC and the bank ROA is not to be compared, but I think we have mentioned earlier also in our presentation in our earlier quarter as was on the previous calls that the model that we are building from the Equitas Bank side clearly we are building a model where the NPS maybe in the continuously in the range of 2.5% to 3% and ROA ideally in the model of that type and that level of risk. The ROA should be in the range of around two quarter plus so that is the model that we are building, and we should definitely be looking to reach it at some point in time in future though beyond that we are not giving guidance at this point in time.

Moderator: The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir in the earlier calls like with typical MFI portfolio or the MFI situation at an industry you had indicated that it is still not as good as the pre-demon level, so in the last quarter has there been any change in the situation or has it there been any improvement that we see vis-à-vis what it was at the end of March quarter that is one. Second is on the liability side if I look at the trend in the CASA so the SA growth which was running at a run rate of close to Rs. 300 crores per quarter increase that thing has fallen down to below 100 this quarter, so just wanted to get a sense on that as well as on the CA side we have seen some improvement in the pace of SA growth so what are the segments which are the driving the CA growth?

P. N. Vasudevan: So before I hand over to Raghavan to give you a better color on the microfinance behavior and trends. One thing is that in the last year we consciously de-grow our microfinance book not because our portfolio was showing any signs of stress post demonetization it was not that because whatever happened during the demon period happened and subsequently all our disbursements starting from Jan 2017 onwards the portfolio from Jan 2017 has been as good as the old portfolio so there will be no issue for us as far as for anybody else to my knowledge in the market. But our de-growth in microfinance has not of arising from any issue from our portfolio perspective but more strategic from a longer term perspective. Now in terms of how the market is doing and what is the trends for the microfinance industry off late I will let Raghavan take that chance.

Raghavan: Post demon if you look at the states which were impacted were Maharashtra, Karnataka and then Madhya Pradesh to a larger extent where the collection had fell down lot about say below 75%

level. In the last two quarters the collections have crossed to about 85% levels now. What does that mean is that the ground level customers who had actually refused payment for various reasons had now started coming back and then regularizing the payment. So which I think is a positive impact of the ground level. I think all the pre-demon and all those rumors of loan waivers have settle down now and clients know that no more waivers are going to be there it is not true. And hence their clients are also eager to do it because their cash flows are also impacted because once they are defaulted they do not get further cash flow from other institutions. So hence there is lot of traction there and the repayment situation has definitely improved.

Rohan Mandora: And sir on CASA front?

Sanjeev Srivastava: So coming back to your question on saving accounts so what happens that typically you know March is a time when we are usually at a peak from the customer balance perspective. And now I am balancing the government account also and get some to the account so some of the money went into fixed deposit for a longer tenure and also you know of course to some extent usually Q1 is slightly muted and then we start building up in Q2, Q3 and suddenly Q4 become very big. So while number were low a bit, but larger portion has gone to fixed deposits and we are putting all these things back on track so we will see be you know getting even better than what we used to do kind of Rs. 300 crore kind of growth which we are talking about.

Rohan Mandora: If I also look at the number of customer in the fixed deposit side in the last three quarters that number that you reported is close to 17,000 because it remains steady, so just trying to understand like while if you look at the fixed deposit base that thing is increasing?

Sanjeev Srivastava: So in fact you would have seen that if I take you through the number Q1 of the last year when you were operating with 335 branches compared to 375 odd branches so last year first quarter we had done a TD growth of close to about Rs. 100 odd crore and this quarter it is about 800 odd crores. So there is a lot of customers basically putting in money retail TD so that is also happening there.

Rohan Mandora: But sir reported count of customers is not increasing, so is there any difference on the presentation this 17,000 is a number that you reported in Q3 and Q4 as well as in Q1 19?

Sanjeev Srivastava: Some of the FD get matured it is a function of how much ATS we are getting all those things are there and we will give you more clarity on that and if you compare the ATS and stuff. So FD number of customer will not be too much number of customers you will see more on CASA front. TD some FDR will get matured this will go up by that saving accounts is always there right and FD customer once the relationship ends and then probably the number comes down also.

Rohan Mandora: Can you share segment wise NPA during the quarter?

Dheeraj M: So what we do is the NPA numbers from our product point of view we will do it end of the quarter like we did it last year and also we are at this time most of our products are keenly looked at by competitors which is why we would like to disclose it end of the year. This is the same practice we did last year the only difference is last year we gave you NPA, MFI and non-MFI if you want I can give you that breakup so the non MFI NPA is 3.5 which was 3.4 last year and MFI is 0.9.

Rohan Mandora: Sir lastly small thing in the employee there has been a dip of 300 employee Q on Q. So this decline was primarily on the asset side, liability side or the MFI business?

P. N. Vasudevan: See that is a number which keep moving up and down because some people leave and then recruitment happens. It is just kind of a timing issue otherwise it is not way deliberate to reduce the headcount at this point in time. So more or less the people required are in place. So in any given month or quarter you will see a 200, 300 numbers going up and down that largely an issue of people joining or leaving. So it is not a very indicative I mean 13500 is more or less like a ballpark number of staff that we are likely to keep having.

Rohan Mandora: Sir any excess PSL that we are having as of June which can be sold?

Natarajan M: Whatever excess we had we have sold so far. So as asset grow maybe we will look to sell in the subsequent quarter.

Moderator: The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: On OPEX growth your guidance from 15% has come down to 12% is that right now for the full year FY19?

P. N. Vasudevan: Yes.

Nidhesh Jain: And sir what is the share of our retail term deposit in our overall term deposit what would be the share of retail term deposit in that matter?

Sanjeev Srivastava: It is close to about 16 odd percent.

Nidhesh Jain: So large part of growth that we are seen in TD has actually come from wholesale is that right in this quarter?

Sanjeev Srivastava: That true. We have also increased our interest rate on saving deposits. Sometime late June and now we are very competitive, so I think now the branches are growing retail TD on a much faster pace.

Nidhesh Jain: And sir on asset quality if we look at a quarter-on-quarter basis though Q1 seasonally is a weak quarter despite strong asset in assets quality in percentage term has actually deteriorated, so how one should look at these numbers does it worry you at all or is it in line with our business plans?

P. N. Vasudevan: Typically what happens in pure retail kind of product that we are in the March quarter is always peak in terms of collection efficiencies everything those kind of speaking and the first quarter immediately following generally has a trough and that is what we went through. But the difference was not much so; it is still very comfortable and in the subsequent quarter when both the monsoon season should be over the season the festival season starts and typically the demand also picks up for not only the retail product, consumer products where many of our customers are into the services of trading and the services, but also the commercial vehicle will pick up significantly in the second, third quarter. So, it is just the normal trend and we are only happy that the first quarter has almost remained very close to March which generally has a tendency of going even higher than that, but we are able to contain it and going forward that should be under control.

Nidhesh Jain: And lastly on microfinance if we look at quarter-on-quarter growth is around 6% if we just analyze that number the growth for the full year should be upward of 25%, so as a strategy again we will try to constrain the growth in that portfolio or if growth comes we are happy to grow at more than 55%?

Raghavan: As far as microfinance is concerned as you know we have just come out of the major stress period and the current growth which is there we will continue to grow this will be round about 15% to 20% while we will definitely not constraint the growth, but the constraint should be basically we will be very choosy about the client, much better clients the quality of sourcing would be better so whatever portfolio that going to build will be a definitely healthy portfolio.

Nidhesh Jain: If the growth of 25% comes then we are happy with that performance?

Raghavan: I said between 15% to 20%.

Moderator: The next question is from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Two, three quick questions one is if you can sort of share the breakup of the fee income and I have seen your presentation, so you have around I think 13 crores coming from liability and 7 crores from PSLC. So there is a remaining pool of 41 crores, if you can give some sort of breakup there about what is coming from third party distribution or other banking fees what else is there?

Sridharan N: Third party income is Rs. 4 crore and the liability segment fee income Rs. 6 crore and the PSLC income is Rs. 7 crores which I already told you, asset segment is Rs. 37 crore there is a loan processing fee you get.

Abhishek Murarka: Entire chunk is loan processing fee.

P. N. Vasudevan: Yes.

Abhishek Murarka: When you say liability segment is 6 crore in your presentation it is 13 crore why is that different?

Sanjeev Srivastava: You are right it is Rs. 13 crore only. The composition is that there are three components in the liability fee business. One is of course wealth; on wealth front we have that distribution for 3.6 odd crores then we have alternate channels where you get fee from debit cards, you get fee from equinox card, you get fee from FASTag. That income is Rs. 4.5 crore. Then we have a liability related products AQB charges etcetera that is coming to 3.6 crore all that put together becomes 13 crores.

Abhishek Murarka: So that is on fee, second is can you just give us the weighted average cost of your SA and your term deposit?

P. N. Vasudevan: Total deposit cost is 6.6%.

Abhishek Murarka: That is in PPT, but within that I just wanted to figure out what is weighted average cost of SA just a saving part?

Sanjeev Srivastava: The saving account it would be somewhere in the range of about 6% because below 10 lakh it is 6% and there above 10 lakh it is 6.5%. So the average cost would be somewhere around 6.1 to 6.15%.

Abhishek Murarka: Just to come back to that MFI growth question, so if you are growing sequentially at 6% you did in the first quarter and you are still guiding for 15% to 20% it is really unlikely that you will do only 15% to 20% the whole year because sequentially then it does not really add up to it becomes 2% sequentially or something like that so is that really very realistic or should we think that there will be some more acceleration in MFI?

P. N. Vasudevan: See basically the March was a lowest in the MFI March 18 so that is why the first quarter looks higher, but what happened is last year we started that 3400 crore and ended with 2400 crore. Now we are starting from 2400 so the first quarter is at 6% if you annualize that 6% it actually becomes 24%, but if you take into account the fact that we are comparing the smallest figure of MFI base for the June to March quarter and subsequently the base will be higher as we go forward because then in September I will be comparing September of 17 and in December I will be comparing with December of 17 where the book used to be higher. So that is why we are saying around 20% is more likely.

Raghavan: And also quarter three is full of festivals. Generally what happens is that the disbursement in Q3 actually comes down traditionally

Abhishek Murarka: Sir just a last question on cost now I would assume that this quarter you would be paying out some bonuses or hikes, taking some salary hikes and also you are adding people on your new business side where you are probably growing feet on sheet and all of that despite that your overall employee number has come down a little bit. So is this just an aberration as you were saying and by the end of the year what kind of increase in employee numbers have you budgeted for and why is the cost till so low I mean the growth in cost just 2% is quite low actually.

P.N. Vasudevan: See the employee cost for the June quarter that includes the incremental that was paid out effective April so that already factored in and if you see our employee cost of Q4 that is a March quarter it was 122 crore against which Q1 that is this quarter is 138 and as a percentage that will be what that is about 16 on 122 that is about 12%, 13%. So that is an increase in the employee cost between the fourth quarter and first quarter and that factors in the increment affective April and things like that. So, any further increase in the employee cost for the subsequent three quarters of this year would only be coming out of any additional staff that we may have to add. And as I mentioned earlier the productivity has improved substantially and we see a good traction coming along on cross selling also so yes there will be some extra staff will include on the frontline on the sales for the new product but otherwise by and large we do not expect any significant increase in the number of staff.

Moderator: The next question is from the line of Himanshu Nazkani from Vulcan Capital. Please go ahead.

Himanshu Nazkani: I wanted to understand what is the overlap between MFI customer base and our saving account customer base?

P. N. Vasudevan: Right now, no we are not seeing that overlap at this point in time because so far, we have not been very active in opening saving accounts for the MFI customers, but does that work in plan I mean we have to have a different method of servicing them. As you know their balances are unlikely to be merge which means that the way you service the cost of delivering any kind of service to them has to be very different from the cost of servicing any other normal saving account holder. As you see our average balance in saving account is around Rs. 60,000. So, when you want to put an establishment to service that type of a customer the way of servicing our customer who may probably have Rs. 1000, Rs. 2000 balance has to be different so that is all work in progress and in course of time we hope to have a different mechanism of servicing them, but as of now there is no overlap.

Himanshu Nazkani: Another thing I wanted to understand is there plans to merge our asset and liability or we plan to keep it separate any update on that?

Raghavan: I think we are definitely we are looking at opportunity in terms of piloting and then looking at how do we service these customers and what could be the process of servicing and what would be the cost. So, we are taking up some pilot branches to ensure that we also service on the liability side of it so we will see that how that particular project comes out and then we will formulate a process and policy later.

Himanshu Nazkani: Just to understand a bit clearer right now if I understand correctly our 600 odd branches are separate and 392 liability branches are separate is that correct? So in future we plan to merge them into a single plans that can be a one stop shop for a customer perspective?

P. N. Vasudevan: No, it is not that way what Raghavan was explaining is that see if you look at the profile of the liability customer they are different from the asset customer and as I mentioned earlier the overlap at this point in time is not much. So, we need to separate channel to address the requirement of these two different profile of customers, but what Ragahvan was mentioning is that in the asset branches currently we are not undertaking any deposit activities, but we have applied to RBI and we have taken approval from them to roll out deposit services from asset officers also. So Raghavan is going to be piloting based on a few branches, rolling out deposit services for asset customers through the asset branches where the cost of servicing such deposit customers would be very marginal and the marginal cost will be very minimal and so it should be believe it should be proving to be cost effective to us to even service and manage small value accounts that is what we believe, but that experimental and pilot that we are going to be working on and if that works well and we expand it then principally what will happen is that the liability branches will remain separate handling its own profile of customers while the asset officers besides doing the lending to certain profile of customer will also offer deposit services to that profile of customers and the marginal cost of that service should be minimal enough that we can support even a small value account.

Himanshu Nazkani: Today if a customer actually wants to take the benefits of liability side savings and all then the asset branch relationship manager will kind of refer that particular customer to the liability branch that is how it happens?

P. N. Vasudevan: Correct.

Himanshu Nazkani: And also, in the gold loan just wanted to understand you are one of the very first MFIs to have diversified into secured portfolio. So, on the gold loan side have we seen a lot of overlap on our MFI customers to let say migrating to gold loan segment or how does it?

P. N. Vasudevan: Basically, a district survey of clients very clearly came across that at least 40%, 45% of the micro finance clients are having exposure to the gold loan and various gold loan institution that is actually an opportunity is there for the microfinance asset branches see how they can actually leverage this yes that is an opportunity that seriously we are looking into.

Himanshu Nazkani: Whatever the portfolio on the gold loan we are right now on that, have you seen such kind of overlap or are we dealing customers in the gold loan segment?

P. N. Vasudevan: Currently the gold loan which is there is being offered through the liability branches very clearly and there is no overlap between the microfinance clients and the liability branch customers and we strongly believe that the client segment which the liability branches attract would be different from microfinance clients. So hence the two service parallelly would exist.

Himanshu Nazkani: My last question would be on what is the fresh loan versus repeat loan ratio in microfinance segment right now?

P. N. Vasudevan: Traditionally, it would be very difficult to now tell because last one and half years we are being funding only the old clients, so it will be substantially higher. I think the fresh clients post demonetization on a safer side we were only giving to those clients whom we had relationships and coming to the second cycle loan. We were not approaching the fresh client and prior to demon if you look at the conversion between from first cycle to second cycle always would be round about 48% to 49% that was the record.

Himanshu Nazkani: The last one would it possible to share the GNPA for vehicle finance segment or I understand you probably do not give a complete product wise breakup?

Dheeraj Mohan: We will give that in Q4 like how we did last year so just there is a clarity product wise NPA we will show it in the end of the year so that is still there.

Moderator: The next question is from the line of Abhijeet Tibrewal from ICICI Securities. Please go ahead.

Abhijeet Tibrewal: Most of my questions have been answered just wanted to ask do we share the disbursement numbers for this quarter and the last quarter?

Dheeraj Mohan: Broadly the disbursement across the banks is about 1900 crore for this quarter and last quarter is roughly about 1600 crore.

Abhijeet Tibrewal: And would you able to give the split between the MFI and the non-MFI?

Dheeraj Mohan: MFI would be roughly around 700 crores.

Moderator: The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Just a few questions from my side one Mr. Vasudevan you had indicated that your upfront in borrowing for this quarter and hence your investments is reasonably high just wanted to understand the broad rationale is to why would you do that? Second to Dheeraj if you could just give us what is the outstanding interest you are earning on these investment on absolute amount. Question to Raghavan, the MFI business since you have now come back into the business what is the average ticket size that you all lending today given that you have been away from the market for some time and the average ticket size is materially improved during this period and the fourth question is if you have to just kind of understand your ROE trajectory is it possible that the balance sheet can moved by 40%, 50% without material increasing Opex, just trying to understand how the ROE trajectory can move towards 15% kind of a number without any material change in cost?

P. N. Vasudevan: First on why you are frontloading the borrowing. See borrowing constitute sometimes the refinance from institution like SIDBI and NABARD so it is a function of when they are in a position to give and there are sub-allocations for SOBs and commercial banks. So, before they exhaust we should be in a position to do it also we are looking to prepay some of the grandfathered borrowing also. So in this case they are high cost borrowing so it make sense to prepay them and avail them no refinances. There will be small mismatch of 10, 15 days where we bought these funds in low-ending treasury bills so that is what happened in the quarter and also it makes sense as a rule as and when when inability to avail to more refinance the in-house interest we are in for hiking cycle and it make sense to frontload your borrowing as opposed to charing funds when the assets are growing very fast so as a strategy also it make sense, but to answer your query on this actually it is a refinance borrowing so we have to do it and when it is available.

MB Mahesh: The differential and how much of high cost borrowing will be up for renewal this year?

Natarajan M: Around out of 1500 crore I think around 1000 crore should be up for renewal this year and we are talking about same thing.

MB Mahesh: 1500 crore is a total high cost borrowing is it?

Natarajan M: They are the NCD issued only there only we have the prepayment process all others have run their completely maturity.

P. N. Vasudevan: Mahesh if you see what happens is in situation where Equitas where Equitas bank is we do not have much of a pressure on our lending rate mostly the lending rate power is in our hand because we deal with a profile of clients where it is not easy for any other bank to just kind of weighted in and take it away from us. So to some extent half percent to 1% in lending rate power is clearly within our hands and given the kind of size of loan that we give under tenure which is reasonably short tenure that we give half to 1% change in lending rate does not really impact the EMI much from a client perspective also in terms of affordability of repayment. So for us it is always better because as I mentioned earlier we are looking at a 40% asset growth this year and as Nat was mentioning you know we do not want to be in a situation where we have asset growing the growth in asset coming in and then we are not funded properly and then we try to raise money in a hurry and then we end up either paying higher weights or worst of worst we find that we have to slow down the asset growth because for any reason whatever funding is not coming through at the time we needed. So, for us the risk of liquidity and not able to support growth is far worse than sitting on idle funds for maybe two months or three months because somewhere that interest rate we are in a position to get our customer to share part of that cost rather than take the risk of not supporting growth with adequate funds. I think on an overall balance basis this is where we are too worse.

Raghavan: Microfinance ticket size now it is averaging around 29,000 because we have second cycle loan contribution coming more in terms of clients, so it averaged it used to be around 26,000 has moved to 29,000.

MB Mahesh: Interest on investment and the fact that on the cost side is a balance sheet supportive for a 40% to 50% growth without any material investments in business.

P. N. Vasudevan: See our advances around 9000 crores now. So, this year as I mentioned 40% from 8200 is where we started we are looking at maybe about 11,200 crore or 11,500 crore so somewhere in that range that should be possible with not too much of increase in staff because we are not planning much brands additions and things like that this year. So next year we will have to look at it, but this year yes, I already mentioned hardly any branch additions and not much of staff except some frontline sales staff otherwise is not much of staff that we are looking at.

MB Mahesh: Both on assets as well as liabilities?

P. N. Vasudevan: Yes absolutely.

MB Mahesh: And the interest on investment?

Natarajan M: For rather than the absolute amount I can give you the SLR yield is around 6.6 and non SLR around 8.2 on a weighted average basis it is close to 7%.

MB Mahesh: And I assume that you are borrowing at a rate lower than this from NABARD?

Natarajan M: It will be higher.

Natarajan M: NABARD money is not meant for investment in G-Sec. NABARD money is meant for loans, but there will be the temporary 2 months or three months where the business is not using it and it is parked in whatever SLR or non-SLR funds investment, when my non-SLR earnings at 8.2% it does not mean that NABARD will have to be lower than that my NABARD could be higher than that in fact NABARD the first tranche we took was 8.3 is what we took the first tranche of NABARD loan at and then inversed at 8.2 or maybe even something lower I do not know, but then is only for a temporary period for few months till the business absorbs it.

Moderator: The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Firstly, what is the excess PSLC assets that we had in the beginning of quarter?

Natarajan M: It is around 3000 crores.

Roshan Chutkey: 3000 crore on which we earned 28 crore in fact all of it or how should I understand how much have we set so far?

Natarajan M: We may have a small question of around 200, 300 crores.

Roshan Chutkey: So, the commission that we earned this year are substantially lower than what we had last year.

Natarajan M: Yes, the prices has come down by close to 40% to 50% compared to last year the reason that we have is there are more sellers this year because all the PSUs banks have become sellers they are holding on to excess last year, but this year they are very actively selling so there is lot of offer pressure.

Roshan Chutkey: Are there any other income initiatives that we have in the pipeline?

P.N. Vasudevan: See other income there are so many streams I think Sanjeev mentioned a few heads like for example the debit cards there are certain level of income that we are earning on our debit cards. We have launched our Equinox program which is a card where a person has to pay Rs. 5000 to get a card and on that we give lot of free offers and things like that. So that Equinox program which is again giving us a revenue stream we are also as you are aware on the fast track so there is another revenue stream which comes through the selling of fast track and people using that I mean there are lot of revenues that we are using, and we will continue to be exploring in fact even our ATMs are net earners for us after the on and off netting off our ATMs actually are a net owner. I mean if you ask me are there any plans for other income I do not know what to answer because so many things we are already doing and obviously if there is any new opportunity that we look at we come across obviously we are trying that also.

Roshan Chutkey: IFRS requirements will be applicable to us so next year though we are a holding company is that right?

P.N. Vasudevan: Yes, as per the guidelines whatever the holding company will have to declare a consolidated IndAS format by March '19, so that is the situation that is the rule as far as I know.

Roshan Chutkey: What is your guidance to achieve 2% ROA by when will be in your number at least what do you think is your assessment?

P.N. Vasudevan: As of now we have not given any guidance on that, so we will have to just leave it where it is except to say that we are at 1% now and I think I have gone through the things in the previous questions in terms of our advance growth, in terms of our expenses, what is the level of growth that is expected on increase expenses and portfolio quality that is what remaining good across our product lines. So, things are looking good only thing is that we are not converting that into a particular timeline by which we can give guidance. We will leave that you to try to figure out but yes short of a guideline yes things are definitely looking in the right direction.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: You have mentioned that we are looking at about 12% kind of OPEX growth, so currently we are at about 240 crore kind of OPEX that we are doing so 245-250 crore would be a stable or steady state kind of a OPEX number for us in coming basically?

Sridharan N: Around Rs. 250 crore is a stable number actually this quarter.

Deepak Poddar: Yes 250 is a stable number. And sir I read somewhere that in three years' time we may be looking at cost income ratio in range of 50%, so any comments you have on that?

P.N. Vasudevan: I do not remember any of us starting from me talking of a 50% cost to income at all. In fact, every time people has asked us about what we expect steady state cost to income, we always taken lot of trouble and pains to explains to them that our is a high-cost model fundamentally because of the kind of borrower segment that we service, and our average ticket size is always going to be very, very small. It will always be in the range of 5 lakh, 6 lakh, 8 lakh kind of stuff and at that level of thing and the fact that these customers are from the informal economy which puts a lot of expense on me in terms of credit and cash flow assessment and also in terms of a very strong robust collection mechanism and the larger number of customers that we have to deal with for the similar kind of a volume that we have to disburse to them. So, Equitas model is clearly a high cost model and of course our lending rate is always factoring in the cost of delivery of the products plus the delinquency expect us from such profile of customers. So our yield also might appear to the higher compared to other banks, but so will our cost of operation be and cost to income-to-ratio if you ask me on a steady state basis which is let say I do not know when is steady state maybe let say three years from today I would probably think that anywhere around (+60%) if we are then I think that is a very fair thing because most banks you see the banks which are at a very higher lending model there cost to income is in the range of 50 to 55. So, which should be around 60 I think.

Deepak Poddar: Yes, actually I was also surprised at reading 50% because in the last concall itself you have mentioned 60% basically.

P.N. Vasudevan: Yes absolutely.

Deepak Poddar: Sir my final query is on your maybe this year you have already mentioned (+40%) kind of a thing, but given the on the ground situation, do you think this is something we can maintain over next three to four years if I have to understand more from a medium-term perspective?

P.N. Vasudevan: Yes from a medium-term perspective the rate of growth in advances is clearly a factor of one demands. Two our ability to service that demand. Three in terms of the behavior of the portfolio, the quality of the book that we are creating and four will be the competition. So, these are the factors generally speaking which will impact or which will determine your growth rates. In all this parameters if you look at the segments that we deal with the demand is very large the amount of demand being service by us or by anyone else is very small. So, the demand is not really an issue even into the medium-term. In terms of our ability to handle that demand, service that demand so we have been at this kind of an informal economy servicing segment for more than six, seven years now. So we have built in lot of capability and any learning that we had to have for servicing the informal customers, we had that learning over the last four to five to six years and so we clearly have the ability and our portfolio quality demonstrates that capability to service this segment demand and in terms of the competition yes competition as of now is not much, but clearly that picture really change there is going to be more competition because people are seeing us and they are seeing that we are able to do this well and our book is good so why not they get into it. Surely, we do expect more people should come into this segments over the next two to three years, but then as I mentioned the demand is so large how many competitors come, the unmet demand is still very large so that is not something which should be an issue from a growth perspective. So, if we kind of put all of this together there is no reason why we should not look at this kind of growth over the medium-term, there is no reason unless some of this parameters change, we will know it as we go away we will know it but at this point in time I do not see anything a particular challenge to maintain this level of growth over the next.

Moderator: The next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: Just one question I have we earlier had a discussion on this excess liquidity on the balance sheet now you have investments number of words 4500 odd crores and plus there is a cash and bank balance of about 1100 odd crore totally it to about 5700 odd crores that is virtually about 50% of your borrowing as of June 2018. We are looking at a growth of about 40% in terms of AUM for that we need only access money of about 2600 crores. So even you were to liquidate part of these investments and bank balances, virtually our liquidity for the full year is already taken care of so should it then winding up this book of investment and plus cash and bank in this quarter itself or are we looking at some more timeline to do that.

P.N. Vasudevan: No everything is a function of how fast assets grow. What you have done is we have front-loaded out our borrowing and if we can share with you we have availed earlier tranche of refinanced sometimes in January we had to temporarily park them in low-yielding treasury bill, but in quarter I think that has been allocated to asset back. So, this is an ongoing process we sort of frontload it and we expect this refinanced to completely consume the assets in couple of months.

Kashyap Jhaveri: Let say opportunity cost of holding this liquidity also looking at our loan yield of about 18%-odd is also very high, so at least can anyone expect that by Q2, Q3 all this access liquidity probably would be consumed in the loans and advances?

P.N. Vasudevan: One is we continue to be completely reliant on bulk deposits at least for the next couple of quarters. So, this borrowings are also bulk in nature so there is not that much of a cost difference only thing we are front-ending it. Yes there is an opportunity cost but that is a tradeoff between if I had to borrow them maybe couple of months later who know tomorrow market is pricing in at rate hike, so it may end up in the higher cost of borrowing for the next three years also so that is a tradeoff one has to take.

Moderator: The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Just to clarity this borrowing piece so what is the average duration of the borrowing that we are carrying on our books right now the recent borrowing that we have taken?

Management: Basically, refinance is five years average should be at close to three and half years. A bulk deposit should be average should be around 1.5, no bulk deposit of nine months.

Rohan Mandora: So sir what is 115 I missed that?

Management: No, it is not 1.5 and I have corrected it is nine months.

Rohan Mandora: Sir on the non-retail deposit that we have how is the mix between say the government trust and any other entities?

Sanjeev Srivastava: So, in the last quarter we have got close to about 1800 odd crore on the total TD side out of which about retail TD is about 50-odd crore. So, 750 odd crore we have got in bulk deposit I think the government money would constitute close to about 250-odd crores.

Rohan Mandora: Remaining would be from trust or corporates or how is that?

Sanjeev Srivastava: It depends it could be large corporates also and not too much from trust because now we are working on a separate strategy to make inroads in the trust business, but yes, Corporate Bank is one segment which is giving money, some corporates are giving money and then the 250-odd crore on the government side.

Moderator: The next question is from the line of Sajan D from Frontline Capital. Please go ahead.

Sajan D: I just want to know sir in the different segment of learning, what are the average lending rate like MFI, in LAP, in vehicle, home loan, in business loans what type of average lending rates?

Dheeraj: So, our MFI is 23%, our vehicle finance ranges from about 15% to about 24% depending on the category of customers on the type of vehicle.

Sajan D: What will be the average sir?

Dheeraj: So this is the range I do not want to split in that but roughly the portfolio yield is about 19%. And the business loan is about 17% and loan against property again is close to about 18% this is from small ticket to slightly mitigate I would not call it large but the 10 lakh to 25 lakh ticket.

Sajan D: And the home loan sir?

Dheeraj: Household loan is about 12.5% to 14%.

Sajan D: What type of verticals we are targeting like where our focus is like in the property we are financing highest then it is MFI then banking so where we are targeting actually?

Dheeraj: 75% of our customers if you look at it are in the EWS for a lower income growth or I would call it the informal segment and another 10% would be the semi-formal and the remaining would be formal segment, so that is how we look at customers. From a credit perspective, it is where we have to assess income there is no documented proof of income that is about 75% and that space is we are operating.

Sajan D: Are we targeting more in the property, LAP type and banking financing more?

Dheeraj: So those two constitute close to 70% of our book and with these growth numbers yes that is the segment which will grow.

Sajan D: Another question I just wanted to know we have talked about the fund-based exposures, is there any non fund-based exposures also?

Bhadresh Pathak: This we have just started the non fund-based products and the bank guarantees the bank can issue now. So this does not comprised of any non fund-based as of now.

Sajan D: As of now there is nothing, but we are starting it and what type of business we can expect in coming one to two years?

Bhadresh Pathak: Roughly the non fund-based exposure would be in the range of 8% to 10% of the total fund based working capital book over a period of time.

Moderator: Ladies and gentlemen this was the last question for today. I now hand the conference to Mr. S. Bhaskar for his closing comments. Over to you sir.

S. Bhaskar: On behalf of the management I thank all of you for the interest in our performance and also for joining the call. We look forward to your continued interest and participation. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of Equitas Holdings Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.