"Equitas Holdings Limited Q2 FY19 Earnings Conference Call"

November 05, 2018

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Moderator: Ladies and gentlemen, good day and welcome to the Equitas Holdings Limited Q2 FY19 Earnings Conference Call. We have with us today Mr. S. Bhaskar – Executive Director & CEO, Equitas Holdings Limited; Mr. P.N. Vasudevan – M.D. & CEO, Equitas Small Finance Bank Limited; Mr. Sridharan N. – CFO, Equitas Small Finance Bank, Ms. Srimathy Raghunathan – CFO, Equitas Holdings Limited, 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. Ram Subramanian – Head, Corporate Banking; Mr. Alok Gupta – Chief Risk Officer; Mr. Gopal Krishnan – VP (Treasury) and Mr. Dheeraj M – Head (Strategy and IR). As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. 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 Holdings Limited Q2 FY19 Earning Call. Our company had a reasonably good quarter. Total advances as of September 2018 neared Rs. 10,000 crores registering a growth of 36% YoY with a stable portfolio yield which marginally improved to 19.5%. PAT for the quarter was at Rs.49.7 crores, growth of around 3.5x on a YoY basis. Return ratios for Q2 FY19 also saw improvement with ROA at 1.37% and ROE at 8.5%. We continue to witness good traction in all the divisions of our business.

Before I invite P.N. Vasudevan to take you through the performance of the bank in detail I would like to update you on the listing of the bank. The board of directors have constituted a board committee with a mandate to evaluate various options for listing the shares of the Equitas Small Finance Bank Limited within the timelines prescribed by RBI. The board has mandated the committee to evaluate various options including scheme of arrangements and reconstruction under the relevant provisions of Companies Act subject to the compliance with income tax and other regulatory and statutory requirements without the need for going in for an IPO. Once the committee reverts back to the board, we will intimate the shareholders accordingly. Through this listing process, Equitas Holdings Limited plans to dilute up to 60% of its holdings in the bank in favor of its existing shareholders and to remain non-operating core investment company till such time it gets regulatory approvals to merge with the bank. Now I hand over to P.N. Vasudevan.

P.N. Vasudevan: Good afternoon to all of you and thank you for dialing into our call. We had a good second quarter backed by robust growth in advance, stable operating expense and continued traction in new products. The portfolio mix is moving as per plan with 68% in secured loans and microfinance is getting closer to the one-fourth of the total advances. This quarter we have provided more information on our product segments which I hope you will find very useful. During the quarter, we moved from month end recognition basis for NPA to a daily recognition of NPA. This has resulted in an increase in our NPA by about 64 basis points. If we had continued with an earlier practice of recognizing NPA as at the end of each month, the NPA as of September '18 would have been 2.73% which would have been about 10 basis points less than what it was in June 2018. However, under the new model of recognizing NPA on a daily basis, the GNPA as of September '18 stands at 3.36%. This also had an additional provision and income reversal impact of Rs.12.28 crores at the PBT level. Parallelly we also had a one-time one-off benefit in operating expense of around Rs.13.5 crores which came back to us from provisions that we had made earlier on valuation of gratuity on leave encashment because of our actuarial valuation methods.

On the liabilities, CASA has moved to Rs. 1,972 crores from Rs. 1,834 crores as of June '18 and retail term deposit witnessed the highest mobilization so far in a quarter. We went slow on bulk deposits largely because of easy liquidity that we were having in the second quarter and mostly arising out of our borrowings on refinance in the first quarter. We also started to bundle and cross-sell RDs to our microfinance customers in a few locations where the experience was pretty good and we expect to roll this out to all the other branches over the next few months. We have continued to progress well on third-party distribution and the bank has mobilized over Rs.78 crores in insurance premium and the mutual fund assets under management crossed Rs.60 crores.

On the treasury front, we scaled down the investment book by nearly Rs. 1,000 crores which resulted in an uptick in our NIM. We also foreclosed NCDs to the tune of around Rs. 1,100 crores largely to take advantage of the interest arbitrage and this affected a redemption premium of Rs.4.5 crores during the quarter.

On the liquidity front, as showcased in the presentation, the LCR is maintained well over 100% and we maintain a comfortable outlook on liquidity in the near-term.

To sum, up we are seeing strong growth in all our lending products and our book is fairly diversified now. The portfolio quality continues to remain healthy and stable and we are seeing good improvement in productivity. We believe that we are on track to achieve the growth target of around (+40%) that we had indicated in the earlier calls.

With this I would like to hand over to operator and we will be happy to take questions from your end. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, just wanted to understand a couple of things: One is if I look at the slide #19 on the presentation and also slide #20, there has been used CV disbursement of Rs.777 crores in the first half of FY'19 but if we look at the AUM growth there has been hardly Rs.38 crores of growth YoY. So, just would like to understand what is happening in that -- is this due to higher repayment? What is leading to such a muted AUM growth? Second was in terms of the NPA recognition which we have moved to daily basis, suppose if they pay two EMIs continuously and come back below 90 DPD, somewhere above 60 DPD, so when would that account get upgraded back from NPA, so just wanted to get some color on that? Because if it is a monthly recognition, at that point of time if they went below 90-days and it was never classified as an NPA. So, now would this mean that we could have slightly upward trends in terms of the NPA recognition or the NPA trajectory for the next one year, just wanted some input on that?

Ajit Balakrishnan: Overall CV, we have a growth of 22% because we were focusing on new CVs. There is a growth in disbursement in last year quarter of almost 40%. Also in used vehicle financing the rundown is higher. Since we are predominantly more in used vehicle the overall portfolio growth was muted.

P.N. Vasudevan: And also further pre-closure generally is higher on used commercial vehicles, basically because customers upgrade the vehicle as they want to sell it away within a year or two of taking finance, and they want to upgrade to a later model, so the pre-closure is also generally higher on used vehicles. So, the total rundown plus pre-closure is quite high and the tenor is very short, typically the average tenor is around 2, 2.5-years, the rundown is quite high because of that and the disbursement has to be much higher for the AUM to grow. In terms of the NPA, I will give it to Sridhar.

Sridharan N: With regard to your question on the NPA, if two installments are due and during the month the third installment has become due and is unpaid, then immediately we recognize as NPA on the 91st day as per the daily recognition basis whereas when we do on a month end basis, within the month end if the third installment was collected and then it remained in the 60-day bucket it would not become NPA. So, in order to remove from the NPA bucket, all the three installments have to be collected.

Rohan Mandora: So, once it becomes zero DPD, you can immediately upgrade that?

Sridharan N: Yes, once it becomes zero DPD, we can immediately upgrade it. Your question on likely NPA in the next coming months, we have manually worked it out. The first month was high as we are moving to daily recognitions, subsequently as it goes on month-on-month it will be only the incremental.

Rohan Mandora: Sir, if I go to Slide #22, wherein you are giving the collection efficiency and vehicle collection details, first both vehicle and small business loans, if we look at 90 plus amount, that is around 4.86% for vehicle finance and around 1.1 for small business loans and if I look at the data on Slide #24, you have given details on the vehicle category wise NPA, this number is close to around 6.83%, so there is some difference in terms of 6.83% and 4.9%, so this 1.7% difference is there, so what explain this?

Sridharan N: As we told that we have moved to daily recognition there could be some NPA in the OD bucket of 61 to 90 also, that is the reason you can see the 90 plus is less than the overall NPA.

P.N. Vasudevan: Basically, 90 plus actually represents accounts which have crossed 90-days as of 30th September, but the NPA is not only that, the NPA also includes all accounts as of 30th September which may be in the 61 to 90-day bucket or which could even be in the 31 to 60-day bucket, but somewhere during the month they might have touched an NPA position, they might have touched the 90-day bucket. So, the moment they touch 90 days it is classified as NPA in the system, but by end of the month, they might have actually paid one or two EMI, so they may not be in the 90-day plus bucket, they may be in the lower bucket, so we call it as a lower bucket NPA, but your GNPA represents of 6.83%, represents nothing but the 4.86 of 90-day plus in September end plus the remaining which is actually in the lower bucket, but technically classified as NPA.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: My question on the Slide #19 where we have given the segment wise gross NPA level. So, sir, currently the small business loan, vehicle finance loan, MSME finance, the NPA percentage is 6 and 2.63%. So, these levels are beyond higher than our budgeted credit losses or it is in line with that sir?

P.N. Vasudevan: Our NPA is generally in line with our budget and actually slightly lower than the budget, but with the movement into daily recognition of NPA, the numbers have actually gone up in September as you saw, it is 2.73 was the overall against which it has actually moved to 3.36, about 60 basis points it has moved on an overall basis. So, that is not something that in the beginning of the year we had budgeted, but that is something which has come up now, but otherwise yes the overall NPA is actually lower than what we had otherwise budgeted for.

Manish Ostwal: Lastly, on a daily NPA recognition method, what is impact of the credit cost guidance on a full year basis sir, it is showing 7.99 crores for the 1H FY19 on slide #8 sir?

P.N. Vasudevan: On slide #8 we have shown you the impact of moving into the daily based recognition. So, for the quarter September the PBT was 12.28 and the PAT was 7.99. In terms of going forward, see, normally we budget a 3% NPA overall and we budget a 1.25% charge or provision on the P&L. It may not be very different from that, it may be marginally more because of this change in the recognition norms, it might be slightly more, but it would not be dramatically different from that.

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

Nidhesh Jain: Three questions sir. Firstly, on the holding company and the listing of bank, what are the expected timelines and did we get any clarity from any of the regulator RBI or SEBI on the proposed structure that we are proposing? Secondly, on cost of funds if we look at on sequential basis last quarter our cost of fund was 8% and this quarter it has increased to 8.74% and for H1 the cost of fund is somewhere around 8.7%, so number from cost of fund are not reconciling, so what is the reason for that? Thirdly, what should be sustainable leverage we should expect if we look at equity, we have crossed 6x in the Tier-1 utilization, that was also quite high in this quarter, so what is the comfortable Tier-1 ratio you will like to maintain at which you will look to raise equity and what is the sustainable leverage that you are looking?

P.N. Vasudevan: On the first point in terms of the timeline for the listing and various regulatory approvals, the outer timeline that we have from RBI of course is three years from commencement of operations as a bank which means that 4th September 2019 becomes our D-day before which the shares of the banks should be listed, and of course there are lot of regulatory and statutory approvals which are required. So, we will be working on all of that to try and ensure that we list the bank within that timeline as determined by the guidelines. So, that is the first thing. On the last thing which is leverage, yes, we are sitting on 23.84% of capital adequacy which is more or less 100% representing Tier-1, going forward from a leverage perspective, yes, we have a capital adequacy requirement of 15%, out of which we are allowed to have 7.5% of Tier-1 and remaining 7.5% of Tier-2, that is a guideline applicable to small finance banks, but of course we will be more conservative than that, so it is not possible to give you an exact number to this, but definitely we should look at significantly leveraging our current capital because at 23% Tier-1 it is very high and so we should be looking to leverage that through growing over the next few years, and as we kind of run down the Tier-1 capital, we will also be looking at Tier-2 because right now our Tier-2 is almost next to nothing, so we should be also looking at Tier-2 somewhere down the line to support on the capital adequacy. So, overall like we have mentioned earlier, we expect to run the next three years plus with our current capital and we do not believe we will need capital for the next three years plus. On the second point in terms of cost of funds, I will give to our CFO to get back.

Sridharan N: The costs of funds have gone up from 8.03% to 8.74% in the second quarter. The main reason is that there are certain NCDs which has been pre-closed and Rs.4.6 crores out of that premium has been treated as interest cost as per the NBFC format, and also certain borrowings which are closed during the middle of September has been charged fully for the cost, two-and-a-half months' cost have gone inside. These two reasons have contributed to the increase in the cost of funds.

Nidhesh Jain: Because if your cost of funds for Q1 was around 8% and for Q2 it was 8.74%, then for H1 8.7% cost of fund does not reconcile with these two numbers, it should be somewhere around 8.2% or 8.3%?

Sridharan N: It comes to 8.70%, because the average borrowings which are calculated, the opening and closing is divided by 2, that is the average borrowings have been calculated for the half year, that is April beginning plus the September 30th, divided by two.

Nidhesh Jain: One more question on operating expenses. So, our earlier guidance of cost-to-income was around 65%. We have already reached 69, 70% level for this quarter and in last four, five quarters, our OPEX growth have been substantially lower than asset growth. So, going forward, do we expect this trend to continue or we will look to reinvest in distribution and branches?

P.N. Vasudevan: Our cost-income as we have guided earlier should come down, for the entire year around 70%. So, it should be that or may be marginally lower. In terms of additional investment in infrastructure, branches and staff, as we had mentioned in the previous calls also, we have invested adequately for our current year growth. So, I do not think for this year we will need much of investment. So, there will be some marginal increase in the number of branches towards the fourth quarter of this year for supporting some growth for the next year, but it will not be a very significant increase in terms of number of branches.

Nidhesh Jain: Lastly on the loan growth guidance, I think with very strong loan growth in H1 of 36%, would you like to revise your guidance upwards or 40% is still guidance for the full year?

P.N. Vasudevan: Last year if you remember we had said 40% plus, so we will stick to that 40% plus which means that it will be around 40%, so we are still sticking to that, we are comfortable on liquidity, so for us the concern is not so much from a liquidity perspective. The market continues to be good and our products are performing quite well, our asset quality touchwood remains very good and so that gives us a lot of comfort and confidence to pursue growth. As you know most of our products are competing in markets where there is a large amount of demand and not sufficient supply from the banking industry. So, clearly the fundamental opportunities remain intact, but asset quality is something that we are always worried about and we are always concerned about and that is something we always keep closely monitoring to ensure that we are on top of the asset quality. I think 40% plus is what we should still be looking to grow for the year.

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

Deepak Poddar: Sir, you mentioned that with the current capital, you are kind of looking for next three years of growth without raising any kind of money and 40% plus is what we have been talking about as a reasonable growth for the next three, four years. So, with the current capital this three, four years of growth is what you are looking to fund with?

P.N. Vasudevan: Yes, that is right because we also have the Tier-2 opportunity to leverage which we do not have much on our books today. So, on a combination of some additional Tier-2 that we would raise plus running down the current Tier-1, yes, we should be looking to three years plus growth supported by the current capital.

Deepak Poddar: In terms of your liability side, the kind of issue that we are facing but we are still confident of this 40% growth over the extended term maybe three, four years?

P.N. Vasudevan: We will have to just take the years as they come by because some of them are changing dramatically, very difficult to predict and be sure about what is happening or what is going to happen in the next quarter or the next year. But our deposit traction has been quite comfortable and as of now at least we do not foresee an issue in terms of liquidity, but we can never predict on that. So, we will take it as it comes, but generally we are quite comfortable. Our branch network is also good; we have 375 branches on the liability side. So, we have pretty good reach into the market for deposit mobilization. At this point in time, we do not see liability as an issue to pursue growth.

Deepak Poddar: You did mention in one of the replies that Rs.13 crores is what to the one-time income which is included in the other expense this quarter?

P.N. Vasudevan: We got benefit, it is not an expense, we make provisions for gratuity and leave entitlement, we have to make provisions on a monthly basis and we do actuarial valuation at the end of each half year and basis that valuation we have to make a provision for leave and gratuity entitlements and whatever monthly provision we have made that has to be adjusted at the end of each sixth month based on the actuarial valuation. So, in September when that valuation was done, we had actually made a provision of Rs.13.5 crores which was in excess of the provision required as per the actuarial valuation. So, that Rs.13.5 crores got released from excess provision and it came back as a release from provision.

Deepak Poddar: I understood that. So, about Rs.250 crores is what adjusted operating cost would have been this quarter, right?

Sridharan N: Yes, otherwise it would have been Rs. 247.7 crores

Deepak Poddar: You did mention that by the fourth quarter we are looking for more branches to open, so how do you see this operating expense on the absolute basis like around Rs.250 crores is what we see as the base basically going forward, any comments on that would be helpful?

P.N. Vasudevan: Yes, the number of branches from here on will not be much. We are fairly well networked both on asset and liability side. We went for a very steep increase in the branch network two years back to kind of get the bank operational and going. As I said for this year's business we do not really need any branch addition. From next year onwards we should be looking at normal levels of branch expansion which will be required to support growth, but this Rs.250 crores of base level operating expense may remain very close to that for at least the next two quarters.

Deepak Poddar: So, is it on the provision front I wanted to ask this Rs.12 crores on the PBT and the 8, 9 crores on the PAT right which it has come because of your daily method recognition that you have followed right, so is that also a kind of recurring thing that will come or is just a one-time impact for us in this quarter?

Sridharan N: This question we have already replied. The one-time impact is on the P&L is Rs.8 crores and from October onwards there will be incremental which will not be this much, actually it will be a smaller amount, it will be an incremental portion, it is one-time adjustment, the opening GNPA has been recognised on daily recognition so that adjustment has been made in the September month.

Moderator: The next question is from the line of Shivakumar from Unifi Capital. Please go ahead.

Shivakumar: Sir, my question is with regard to the customer deposit mobilization on Slide #26. On QoQ basis, the customer deposit mobilization was slightly on the lower side in Q2. What are the reasons for that sir?

P.N. Vasudevan: In the second quarter we did grow our CASA book as well as our retail TD, both of them did grow but our bulk deposit actually went down. You would remember in the last quarter concall also, this was one of the points raised in terms of we are taking a large amount of refinance from the institution ahead of the need for the money for business purpose because we felt that the interest rates would harden and so it was better to borrow when it was available at a certain level of interest rate. So, we did borrow fairly large amount of money, about Rs. 1,000 crores from the institution towards the very end of the last quarter and that money was available to us for funding the growth for this quarter. And so the bulk deposits which is really like a kind of balancing figure, we went slow on bulk deposit because we had that Rs. 1,000 crores to be deployed first. So, the bulk deposit actually went down in the second quarter compared to the first quarter whereas our retail TD as well as our CASA, both of them did register growth in the second quarter.

Shivakumar: Sir given the macro environment wherein the corporate money is wary of getting deployed in debt mutual funds, would you relook at your strategy of bulk deposits and maybe again open the gates for more corporate money to flow in?

P.N. Vasudevan: So, those will be strategies that will be kind of tactical strategies, we will have to decide from time-to-time based on our need for money because there is some amount of retail deposit and CASA which is coming into the system and some level of refinance will any continuously be raising from the institutions. So, the bulk money whether it is from corporate or from other body corporates or companies, etc., that is something we will have to look at from time-to-time based on our needs and in terms of what is the cost which is going in the market. So, it is something that is very difficult to say that is something that we will focus on. It just depends on our need, the rate at which the money is available and what are the other alternates available in the market, so it is really a combination of that. But our focus should and will continue to be retail deposits and retail CASA because that ultimately is what is going to be both sticky as well as over a period of time it will be the lower cost and we do have very large network of 375 branches. So, as the branches keep maturing and as the branches keep evolving, the retail flow deposit is what principally should drive our need for money and currently the CASA average per branch is around Rs.5 crores while the total deposit base per branch is around Rs.15 crores. So, as that number keeps increasing, that should really fund most of our liquidity requirements with the bulk deposits from whichever source really only coming in as a filler for any gaps.

Moderator: Thank you. We will take the next question from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutkey: Sir, firstly, a few data point questions. How do we see the number of retail TD accounts is higher than the overall TD accounts number?

Dheeraj M: Roshan, Dheeraj here. On Slide #26, the number of customers we have mentioned does not include the micro finance customers whereas subsequent slide where we have mentioned it includes all TD customers. So, that broadly shows you that micro finance cross-sell of TD have started.

Roshan Chutkey: If I look at your CASA mix by value, approximately 67% is less than Rs.1 crore. How does that tie-in with what you are showing in the following slide of retail momentum?

Dheeraj M: We have defined retail from the banks perspective. For CASA it is below Rs.1 crore and for term deposits it is below Rs.10 crores because there is a lot of individual money flowing at that value and below and only corporate when they are putting money with us either from CASA or from term deposits…

Roshan Chutkey: Rs. 1,973 crores stand at Rs. 1,973 crores in both the slides, but you are calling it retail CASA whereas the pie chart in the previous slide shows that will be about 67% if less than Rs.1 crore. Slide #29 which you are calling it retail CASA less than Rs.1 crore the amount is the same. Is there any difference between the total CASA and retail CASA here?

Dheeraj M: No, that is total CASA, that is not retail. I understood what you are saying. On the CASA, we have not given the retail breakup in Slide #29, we have just shown the overall movement in terms of number of customers and balances.

Roshan Chutkey: On Slide #29, the number of retail TD accounts 45,706 includes the MFI borrowers also which is not the case in the previous slide?

Dheeraj M: Yes, you are right.

Roshan Chutkey: Some other data point questions. If I look at your Slide #24, small business loans on a month end recognition basis the GNPA number is 2.54% whereas the Slide #22 shows 1.1% as the 90 DPD number?

Sridharan N.: Roshan, the difference between 90 DPD will include all NPA customers but as you know NPA customers can also be at the lower bucket but still be marked NPA in the banking…

P.N. Vasudevan: Even in the month end recognition basis, what happens is suppose a customer is let us say touches an NPA at the end of a month so his account is flagged as an NPA. In the next month, suppose we are able to collect two EMIs from him and let us say he comes down to 60 bucket or 30 bucket he would still be classified as NPA in the system because as per banking accounting practice, an account which becomes NPA remains NPA till it becomes zero whereas for NBFCs the account which becomes NPA and once it comes below 90-days, they declassify from NPA. So, for an NBFC, you would find that 90 plus and GNPA should actually be exactly the same whereas for banks the GNPA will be always higher than 90 plus because the fact is that only till it becomes zero overdue it continues to be shown as an NPA.

Roshan Chutkey: Just one data point rather interpretation thing, so is the MSE finance book not stable at as in is that a fair assumption to make because the delinquency levels are in line with that of small business loan book, I presume small business loans book delinquency should be better than MSE finance in my reading existing level?

Bhadresh Pathak: This MSE finance portfolio shown to you include the unsecured business loans and the delinquency which is shown is also only on account of unsecured business loans because there is no delinquency in the secured portfolio which is about Rs.100-odd crores now which is the working capital portfolio. So, this unsecured business loans has been older business and secured working capital has started only this year from the first quarter. So, the delinquency numbers which are shown collectively represent both the businesses; however, there is no delinquency in the secured business which we have started of late and this is the historical delinquency which is being shown.

Roshan Chutkey: Now you are earning commissions on the insurance sales that you do, right, on the credit life product unlike in the past. Now, can you just quantify what kind of commissions you earn as a percentage of premium?

P.N. Vasudevan: Whatever is applicable as per IRDA norms.

Moderator: Thank you. We will take the next question from the line of Hiten Jain from Invesco. Please go ahead.

Hiten Jain: My question is again on this NPA recognition. So, during the quarter we change the NPA recognition from month end to daily, which means that accounts that could be NPA on daily basis, but they pay back by the month end. So, in that case by month end, should it not the upgrades and recoveries be higher than the previous quarter, how does this work?

P.N. Vasudevan: If an account is let us say in the 60-90 bucket in the previous month, let us say the account is say about 80-day overdue as at end of the previous month, then on the 10th of next month, that 80-day overdue becomes 90-day overdue, so automatically on 10th of that month, the account gets flagged as an NPA assuming that in the first 10-days the customer has not paid any further installments, then on 10th of the month that account gets classified as an NPA. By end of the month let us say between the 10th to the 30th of the month assuming that the client does pay at least one EMI, and then at the end of the month he will remain at the 60 bucket level. But already he has been marked as NPA. So, as far as the system is concerned, that account will remain as an NPA even at the end of that month. So, that is the main difference between the month end recognition and daily recognition. So, in the month end recognition, we typically had the 20-days extra between the 10th and 30th in this particular instance to collect one EMI and it will remain as non-NPA but in a daily basis by 10th if I have not collected one EMI that it becomes NPA and even if I collect one EMI between the 10th and 30th, it will still remain as an NPA, so that is the main difference.

Hiten Jain: Correct, but then when he pays back, then our upgrades and recoveries should sequentially look higher, right?

P.N. Vasudevan: No, actually we reflect an upgrade only when the account becomes completely zero and moves away from being an NPA. So, in this particular instance for example on 10th I classified as an NPA and by 30th let us say he is paying one EMI, so he is remaining in the 60-day bucket, I do not add it to my upgrade, I do not add it to my deletion during the period which I have shown in page #24 there is a deletion during the period. This account would not get reflected on the deletion because he remains an NPA at the end of the month because he is still at 60-day bucket, but if I am able to manage to bring him down to completely zero, then only it will get reflected as deletion.

Hiten Jain: So, this is the change from 1Q19 to 2Q19?

P.N. Vasudevan: Absolutely.

Hiten Jain: My second and the last question is our risk weighted assets have grown faster than AUM growth both on sequential and year-on-year basis. So, what could be the reasons for this?

Alok Gupta: The reason is largely the growth in the advances. So, if you look at the growth, RW normally goes up in line with that plus we have significant book in consumer credit which attracts around 125% RWA. That is the reason the total RWA has gone up to 8,439.

Hiten Jain: So, consumer credit, which line would it be because all the non-secured business would be consumer credit, right?

Management: Yes, LAP business is like business loans are coming, those comes under consumer credit.

Moderator: Thank you. We will take the next question from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, sorry to just take this discussion forward, from customer perspective, when let us say he is marked as an NPA because of the daily recognition, what difference does it make to that customer and in turn your ability to recover money from that, so in previous regime he would be still in standard asset and now the system is flagging as an NPA, so does it make any difference in your ability to recover that money and also in his willingness to pay back to you because he is now classified as an NPA?

P.N. Vasudevan: In terms of disclosures for example to credit bureau or within that RBI platform called CRILC, in all these things what is normally sent out is only the DPD. So, in our case for example if a person is marked NPA on the 10th and by 30th he is actually in the 60 bucket, then the information that at the end of the month we feed into the credit bureau or into CRILC in case the exposure is over Rs.5 crores, will be actually the DPD. So, we do not actually populate things like NPA and things like that into the CIBIL. It is the DPD which is sent. So, the public information that we share as far as the customer is concerned is DPD which remains the same, whatever internal classification we may have in terms of marking NPA, etc., is not material from a disclosure perspective. But from our internal follow up mechanism and perspective, naturally the fact that this account will become an NPA by 10th and not by 30th means that my collection machinery has to be actually rolling in faster during the first 10-days and not kind of take it easy in the beginning and really push hard towards the month-end. So, that is a big change for us from our own staff and staff alignment perspective, that is a big change and for the customers also because traditionally not just as but most of the banks are NBFCs typically the month end is an area where they go and tell the customer please pay up before because the month end is approaching and your account will get downgraded as NPA. So, even customers over so many years and years have got used to this thing that somehow, they have to pay at the end of the month and the account will be okay. So, the culture or the approach has to be changed both from our own staff perspective and the customer perspective. So, t those are the challenges but these things will settle down over time as we go by.

Moderator: Thank you. We will take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Sir, just want to reconfirm one thing, when an account gets flagged off as an NPA, after that if it flows back to say 60-day bucket and it remains in the 60-day bucket till maturity of the loan, so will we have to provide the aging provision on this loan, still NPA but in 60-day bucket, so that understanding is correct, right?

P.N. Vasudevan: Absolutely correct, it will remain an NPA till the end of that contract simply because it touched NPA once and has remained in 60-bucket for the rest of the entire tenure of the contract, so technically he will be on our system flagged as an NPA right through the contract.

Rohan Mandora: Secondly, are we comfortable with the current product wise 30 plus DPD that we are seeing or are we having some specific action plan to bring these numbers down? Also sir, when an account goes into zero plus or 30 plus, when does the penal interest kick in in case we are charging from the borrowers – is it at 30 plus level or zero plus DPD level and what was the total penal interest collected during the quarter?

P.N. Vasudevan: In terms of our comfort on 30 plus or the lower bucket over dues which we have shown in page # 22, these have been stable for a quite a few quarters now, so they are generally comfortable and the kind of rollback from the lower bucket to the earlier bucket is generally quite high. So, the typical rollback of 1 to 30, either rollback or stabilization in the 1 to 30 is close to something like about (+90%) and all that. So, generally things have been comfortable and they have been quite stable. So, as of now we are comfortable with this data of Page #22. In terms of the penal interest, actually in microfinance we do not charge overdue charges at all, the customer is required to pay the installment, if there is a delay, she still pays the installment, we do not charge overdue interest for the microfinance borrowers, but for all other borrowers normally if any amount is due on a particular date and is paid on a subsequent date then for that intervening period there is a certain level of additional interest which is charged. The quantum of additional interest charge is not shown in any of the slides here. We will take your point; we will look at it whether we should add into the next presentation.

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

Nidhesh Jain: First is on the CV finance growth has been quite lower than our overall balance sheet growth. So, is it a conscious strategy or the demand side environment is weak in the CV financing because other financiers are reporting quite a strong growth in CV portfolio? Secondly, any particular reason for sequential decline in current account in absolute amount?

Ajit Balakrishnan: Basically we are in to used commercial vehicles and currently we are getting into new CVs and in new CV we are not in to heavy commercial vehicles which typically have higher loan amounts and the rundown of used is little higher than what we expected. Our disbursal number of used should be much higher than what we are showing to compensate the run down.

P.N. Vasudevan: On the current account, last quarter there was some disbursement from corporate for some NBFC and the disbursement which actually happened exactly on the last day of the month just remained in the current account, but that was just a one-off blip, so this quarter obviously there was no such disbursement.

Sanjeev Srivastava: On the current account side, we get normally good support from cooperative bank also, so post DHFL issue in the month of September cooperative bank had a liquidity, so whatever money we used to get easily on the current account that also dry down to some extent and that is the reason we have seen a decline; however, overall on the savings side, we had the best quarter so far, so that is again CASA has grown, but current account has dropped while savings has seen its best growth in the quarter.

Moderator: Thank you. The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane: Sir, can you give latest update on the health of our NBFC exposure, which is small, around 3.9% of the total loan book, so in the light of current liquidity scenario, any update would you like to provide as on date?

Ram Subramanian: Almost 97% of the exposure has been only to rated corporate. After the recent developments what we have done is we have taken a view that we'll go slow at this point of time, we will watch the market as how exactly it pans out and take a view as it goes by during this current quarter.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. S. Bhaskar for closing comments.

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

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