Equitas Holdings Limited

Q4 FY18 Results Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Equitas Holding Limited Q4 FY2018 Earnings Conference Call. We have with us today on the call, Mr. S. Bhaskar, Executive Director and CEO, Equitas Holding Limited, Mr. P.N. Vasudevan, Managing Director, Equitas Small Finance Bank Limited, Mr. Sridharan N., Chief Financial Officer, Mr. Raghavan H.K.N., President, Inclusive Banking; Mr. Sanjeev Srivastava, President, Branch Banking, Liabilities, Products and Wealth; Mr. Bhadresh Pathak, President, SME Banking, Mr. Dheeraj M., Head Strategy and IR, and Ms. Srimathy R., 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the confidence over to Mr. S. Bhaskar. Thank you, and over to you, Sir!

S. Bhaskar: Thank you. Good afternoon, everyone. Welcome to Equitas Holdings Limited Q4 FY2018 Earnings Call.

During Q4, the operations of the bank progressed well. Total advances as of March 2018 stood at Rs.8238 Crores, registering a growth of over 15% led by a strong growth in our non-MFI portfolio, which grew by 23% year-on-year. The PAT from the quarter was Rs.34.9 Crores after return to profitability. Annualized ROA for the quarter was at 1.12%. PAT for the full year came in at Rs.31.4 Crores and we managed to remain profitable despite high credit costs and the resultant current slowdown in microfinance business.

Now I hand over the call to P.N. Vasudevan to take you through the performance for the quarter.

P.N. Vasudevan: Thank you, Bhaskar. Good evening to all of you, and thank you for dialing into our call.

In the December 2017 quarter, we had made full provisions for all the impacted microfinance advance, which arose due to the demonetization. Effectively the March 2018 end quarter is the first quarter without the overhang of the impacted portfolio. The advances as of March 2018 were about Rs.8,200 Crores, which is a 15% growth over the previous year.

Within this advance, the non-microfinance book constitutes about 72% of the portfolio and this part of the book recorded a growth of around 53% over the previous year. The microfinance book, which is the remaining 28%, "de-grew" by about 30% over the previous year, which is part of our conscious strategy of de-risking the portfolio.

In terms of asset quality, the overall GNPA reduced from 4.95% to 2.72% in March, and within this the non-microfinance NPA reduced from 4.1% to 3.4% in March. As for the microfinance is concerned, the GNPA reduced from 6.8% to around 0.75%, largely due to the write-off of the impacted portfolio, during the last quarter. At this level of around 0.75% GNPA, the microfinance book is now reflecting normal levels of delinquency, which is traditionally associated with this product.

Our branch network is also fairly in place with about 375 branches on liabilities and nearly 500 branches on the asset side. Except for some strategic branches we may put up, there is no serious ramp up of branches envisaged this year (FY19). This year, the aim would be to significantly leverage existing infrastructure that we have already invested in.

On deposits, we continue to show good traction, with total deposits moving to about Rs.4,700 Crores, which is about 45% of our total borrowings. Within this, the CASA ratio has moved up to 34% and the fee income from liabilities has also shown good traction over the previous quarter.

To sum up, the GNPA of the various products are within comfortable levels giving us a bandwidth to pursue growth. The new products introduced in the previous year have also shown a good traction. The working capital products, are expected to be rolled out by the second quarter and over the course of the current year, should be available across all the branches.

Microfinance this year is expected to grow, albeit at a slower rate of around 15% - 20%, while the non-microfinance portfolio should continue to record a strong growth. Overall, we expect that the advances, this year, should grow probably by around 35%+.

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

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Congratulations Sir for good traction across all the operating metrics. Particularly in terms of growth, so as you are guiding for the MFI has also come off to 28%. But now when we look at in terms of this size, used vehicle plus say LAP as well as MFI, those are around Rs.2,200-odd Crores. Which other segment do we see could gain scale to a similar extent be it in terms of housing finance or business loans? So apart from these 3 segments, which would be the other key focus product segment, which could scale up significantly?

P.N. Vasudevan: See over the next couple of years, we expect our MSE loans to really come up strongly because when I say MSE, we are really talking of business loans, working capital loans and term loans for the micro & small enterprises. The loan sizes typically should be in the range of around Rs.10 lakhs to Rs.50 lakhs and maybe Rs.50 lakhs to Rs.1 Crores with an average loan size maybe anywhere in the range of Rs.30 lakhs, Rs.40 lakhs, Rs.50 lakhs. So that is a segment that we are looking at as a significant opportunity because the demand from that profile of customer and that segment is really very large. And, the supply of money or supply of facilities from the rest of the banking sector is not very high to that segment. So going forward, microfinance may be a decent part of the book. Commercial vehicle should continue to be a good size of the book. The micro LAP, which is again, something we have done in the last 6 years or so and where we have built a tremendous amount of capability to underwrite the credit based on our own cash flow assessment and also manage the collections. That should again, continue to be a strong part of the book. And the latest addition, which could be our MSE funding, which we have just launched and which should be rolled out into all the branches by this year, that could be principally the fourth biggest product as we go forward.

Kunal Shah: Yes so, would LAP also grow at your average asset growth of more than 35% or now maybe we have seen it scaling up to some level and it should follow the overall balance sheet growth?

P.N. Vasudevan: No, see our LAP is different from the LAP that generally the market talks of. Our LAP is really the micro LAP, which is the very small size and less than Rs.5 lakh and the less than Rs.10 lakh kind of loan. And demand in that segment continues to be quite strong, really strong and the supply continues to be quite small. So, the percentage growth rate and all that should continue to be good because our own size also is very small. Our base is still very small at Rs.2,200 Crores. Our LAP book is still really quite small compared to the kind of demand there is in the market. And so long as we are able to maintain our portfolio quality intact and so long as our collection remains strong, the micro LAP also should continue to exhibit a good traction over the next maybe 3 years or so.

Kunal Shah: And in terms of asset centers, those have come off from 622 to 597, so what would be the reasons for that and that too, particularly, in Tamil Nadu is where we had seen. So what is the reason for that, is it consolidation, or how should we look at?

P.N. Vasudevan: Yes, yes, there are some places where we had offices in same town, different asset offices, so all of them have been rationalized and brought under one roof, that is the reason.

Kunal Shah: And lastly, in terms of Retail TD; so CASA is gaining significant traction, but if we look at Retail TD in terms of the number of customers, so that is still broadly the same. So is it maybe that the growth, which is coming in on the term deposit side is largely bulk deposits and equivalent traction is not being seen on the Retail TD because number of customers are almost similar?

P.N. Vasudevan: Yes. I will ask Sanjeev to respond to that.

Sanjeev Srivastava: Yes. Thanks, Vasu. So actually even we have realized it and we have interest rate, which is below 10 lakhs, 6% and above 10 lakhs, 6.5% interest rate. It is pretty much comparable to the Retail TD of other banks; however, we do want sustainable numbers on Retail TD side. And therefore, we are just keeping our interest rate in this financial year and because we have realized it that it is an important Retail TD and important side so we are just picking our interest rate to make it more attractive, and we really want our entire retail distribution franchise to garner good retail deposits, which is a long term sustainable money. So we are working on that.

Kunal Shah: Okay. So now, there should be an uptick out there?

Sanjeev Srivastava: Yes, yes. Sure.

Kunal Shah: Okay, thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Amit J from UTI Mutual Funds. Please go ahead.

Amit J: Good evening Sir. Thanks for the opportunity. Just if you can guide us what led to a lower operating expense, both on the employee as well as the other expense front this quarter on a quarter-on-quarter basis?

Sridharan N: Yes, on the opex, if you compare on the quarter-on-quarter Q3 versus Q4, on the employee cost we had a reduction of nearly Rs.11 Crores. That is basically arriving out of valuation difference. Otherwise, rest of the opex remains the same almost like same.

Amit J: No, even the other expense are down, is there any one-off here? What is the sustainable cost income ratio, say, for next year? Are Rs.200-odd Crores is a sustainable quarterly opex or it should be around Rs.250 Crores, so what is the range broader range for the next year?

P.N. Vasudevan: Our cost should go up this year compared to the last year basically because of one, of course, the increment salary changes and increments that will be given out in the month of April, and then the traditional increase in the operating expense such as rental, which happens on a yearly basis. So these two are anyway something that we have there factor in.

Beyond this, from expansion perspective as I had mentioned earlier, we do not expect too many branches to be added. Of course, there will be a few branches strategically placed, which will be opened in a few strategic locations. But otherwise, no significant branch expansion is planned for FY19. And from a staff perspective again, there would be some increase in staff, especially in terms of maybe credit and collections in some of the new products, but otherwise we do not expect significant increase in the number of staff either. So more or less, excluding the normal yearly changes in the operating expense, we should expect to see reasonable amount of stability in terms of operating expense.

Amit J: And in terms of the trajectory of the cost income as well as the ROA metrics where do you see them moving into FY2019, if you can give the guidance?

P.N. Vasudevan: Well, we are not really going to give any particular number as a guidance on this factor, except that you can see that there is a decrease in the cost-to-income from third to fourth quarter. And as I mentioned earlier, the operating cost is expected to stabilize in FY19 with the changes that I had just mentioned with certain level of increase. And, the portfolio growth should continue - we did put guidance out on this when I spoke earlier - that we expect the portfolio to grow around 35%+ during FY19. So, I think that is the guidance we are giving and from there, we should be able to work out reasonably how the ROA should look like.

Amit J: And last question, Sir. In terms of PSLC fees, what could be the amount, say next year? And was there any GST yield related to PSLC as some of the other banks had to make?

P.N. Vasudevan: See PSLC income, we cannot predict because it is purely market demand supply led. So we will take it as it comes, may be some time in the month of June when the PSLC demand picks up we will have to see how much we are able to gain based on – how much kitty we have to sell, first of all, and what kind of rates go around in the market. So, it is not possible to predict that. In terms of GST on PSLC, it is very clear, I think there has been lot of clarifications issued that GST would apply, so whenever we do, do a PSLC deal, as per the current rules and regulations, I believe that we are expected to provide for GST.

Amit J: And what is the rate of GST in that?

P.N. Vasudevan: It is a same standard rate, 18%.

Amit J: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Rice William from Altera Capital. Please go ahead.

Rice William: Thank you for taking my question. I wanted to ask you about treasury management, as we saw another quite considerable increase in the securities portfolio this quarter that was fully funded by proportional increase in the wholesale borrowing book. We have now seen advances on balance sheet as a percentage to total assets dropping to a level of just 58%, which is obviously dragging down your NIMs while your loan spreads have remained pretty strong. So I just wanted to understand what the reason was for taking on all this extra liquidity in the quarter? And how we should expect the balance sheet to look in the coming quarters as you ramp up your loan growth?

P.N. Vasudevan: Yes. See we are sitting on a fairly high capital adequacy. So while the advances will grow and hopefully, over the next few years, the capital will get consumed by the growth in advances so this one, what we did and what we expect to do is basically to see how do we leverage our excess capital to increase the overall earnings for the bank. So, the treasury did undertake some short-term borrowings and also you get money for investing in short-term assets, which gives us a certain level of yield. Of course, it is not anywhere comparable to the yield on our advances naturally, but it is still a positive spread. And, it helps us leverage the capital and increases the earnings overall for the bank. Some of the ratios would look weaker because of that, like the NIM will look a little weaker maybe. The ROA may probably also look a little weaker because you are having a larger denominator to deal with. But your ROE should be looking better because overall earnings is going up on the same capital. So, we will continue to do this kind of short-term treasury borrowing and investment as long as they earn a positive spread and as long as there is capital, which is more than what is required for the advances. So, I think that is the whole strategy on the treasury piece.

Rice William: Thank you. Could you put a little bit of a few numbers around where you are seeing your marginal borrowing cost for short-term wholesale funding? And what kind of yields you are reinvesting. So what sort of spreads you are earning on these marginal treasury transactions?

Dheeraj Mohan: William, Dheeraj, here. So the treasury, when they look at an arbitrage opportunity, roughly it is about a 60 to 80 basis points spread, depends on how and where they look in and lock in the transaction, both SLR and non-SLR.

Rice William: Thank you.

Moderator: Thank you. The next question is from the line of Aseem Pant from HSBC. Please go ahead.

Aseem Pant: Thank you for taking my question. Just a couple of questions; one is, in terms of your PSL qualifying book, what would that be right now as a percentage of your total ANBC?

P.N. Vasudevan: Those are numbers, which are really difficult to put it out in public space, Aseem.

Aseem Pant: Okay. No problem, Sir. And secondly, Sir, just coming back to you on the microfinance scenario. I mean, 2 years, almost 1.5 years have passed since the demonetization and the whole upheaval. How are things, I mean, what is the ground-level experience now in terms of competitive intensity, peers, how has the scene changed between then and now? Or has it not changed? And especially with the ticket size, that MFin has increased the ticket size cap that is allowable to lend to a customer? How do you see all this playing out in terms of risks and opportunities?

H. K. N. Raghavan: This is Raghavan. Yes, in terms of microfinance, post-demonetization till September 2017, there was turbulence. Post September 2017 here is lot of calmness in the marketplace, and the clients have also started realizing that, it was no more a way. So the situations at ground was that the microfinance institutions and banks were able to go back to the clients, touch base with the clients and regularize certain repayments, right? And then second, in terms of the competition, I think microfinance still, offers a very large opportunity, the penetration levels are still low and second, most important thing is that it is a 2-year tenure. So the tenure is so small so that always you will have enough people, enough clients out there to go and then lend. In terms of MFin, it has not increased the ticket size. It has increased the credit limit, from Rs.60000 to Rs.80000. So to that extent, I think now Mfin has also guided that 3 institutions can actually, lend, right? So that is the reason why from Rs.60000 it was raised to Rs.80000. But otherwise, ticket sizes post demon, I think most of the institutions have tapered down the ticket sizes and they are under reasonable level as of now.

Aseem Pant: Okay. And Sir, one last question in terms of your spread outlook for FY2019, what could that be from here on?

P.N. Vasudevan: So the spreads, what we have seen in Q4 is 11.3%, but we think it will hold on to this level for the year because we also have some of our high cost debt maturing in FY2019. So that, along with the fact that, even if we have reasonable traction in our low-yield products, we should hold to this spread of 11.3% - 11.4%.

Aseem Pant: Thank you so much and wish you all the very best.

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

Nidhesh Jain: Thanks for the opportunity. Sir, on vehicle finance we have witnessed relatively slower growth versus our non-microfinance book growth of 53% while there is a lot of optimism in CV vehicle finance and if you look at the growth of peers they have been growing at a very healthy pace. Any particular reason of our growth being slower?

P.N. Vasudevan: Yes. Our commercial vehicle finance actually grew by around 20% over the previous year, and there is no particular reason for it; our book continues to be good. But during the year, somewhere in the middle of the year, we did slow down a bit on our growth in commercial vehicles, especially in the months of July, August, if you remember our second quarter was not very good from a NPA perspective. July-August was in fact one of our lowest collection efficiency months, which we thought was attributed largely to the GST rollout, but subsequently from September onwards, the portfolio and the collection came back quite strongly. And of course, the year ended up very comfortably in terms of our NPA. And so that was one reason why we kind of took a little bit of a slowdown on the VF in the middle of the year. But now the growth is completely back on track and the commercial vehicle market is also expected to do well this year from the overall perspective. And the new vehicle sales have also been increasing. We did introduce new LCV financing in the middle of last year, so that should also add to the growth from the overall commercial vehicle segment. So this was the reason why we had about a 20% growth last year. And in FY19, the market looks good, so we will have to see how well the commercial vehicle segment picks up.

Nidhesh Jain: And on the asset quality Sir thanks for giving the disclosure on the line up business basis. There is slight increase in gross NPA in the mortgage segment as well as the 1% gross NPA of business loans. How one should look at because on a base of last year that percentage may look pretty high, so just comment on these 2 line items.

Bhadresh Pathak: On the business loans, 1% NPA over a portfolio of about Rs.411 Crores credited over a period of 1 year. We are consciously taking very quality cases from the market. And going forward, it is not going to increase beyond this and with this asset quality, I think, the kind of rates that we are charging, we are comfortable as far as the business loans are concerned.

P.N. Vasudevan: And on the mortgages, there is a small increase but that is still under control.

Nidhesh Jain: And then lastly on the operating expense, what sort of growth we should expect from these levels, it should be single digit or 10% or 15%-plus?

P.N. Vasudevan: I think we went through that in the last 2 questions. So you will have to stitch in some increase for the salary increments, you will have to stitch in some increase from admin expenses like rental, etc., and some little bit of increase for new staff, especially for new products that we will be recruiting. Otherwise, principally our branch expansion is not expected to be very high. Mostly we will be leveraging the current branch network for the current year. So I think that is what you will have to factor in when we look at our growth in operating expense.

Nidhesh Jain: Because the last time you guided for a 15% plus growth in opex. Whether that will be our reasonable estimate or we should?

P.N. Vasudevan: Yes, I mean that is a reasonable estimate, I would believe.

Nidhesh Jain: Thank you.

Moderator: Thank you. We will take the next question from the line of Manish Ostwal from Nirmal Bang. Please go ahead. Sorry to interrupt Mr. Ostwal sir can you speak a bit louder we are not able to hear you. Sir, the line of the current participant has dropped off the queue. We will move on to next question that is from the line of Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey: My question is, you just mentioned that you do not plan to incur more expenditure on adding branch network, okay, and we have seen a decent traction in deposits this year. So in light of this, should we expect similar traction in deposits in FY2019? What is your take on that?

P.N. Vasudevan: Yes, because see many of our branches are still fairly young. So the deposit traction should continue to be good because basically the branches are not really matured. And I would also request my colleague, Sanjeev, to talk further on that.

Sanjeev Srivastava: Yes, so I think now from the CASA perspective, we are going to have a three-pronged strategy. Our penetration into mass market is fairly stabilizing. We will continue to focus on that. Then, in Q3, through our products like Wings savings account, which was basically our entry into the mass affluent segment. And we are happy to share that in our 100 odd days of journey on Wings accounts, we were able to add close to by 25000 customers with a balance sheet of about Rs.342 Crores, with an increased ATS of about Rs.1.3 lakhs. So this year, the full year, this project will be available. Also on the current account side, we are having some projects with a higher variance. So we will focus on that, and our third strategy would be to leverage our MSe network and then completely facilitate 360 degree banking offering, the entire solution for the family both on liabilities and the asset side. So we are pretty hopeful that we will see even higher traction on CASA buildup because of the branches.

Madhuchanda Dey: No, as a proportion, which is now 45% at the end of FY2018 where do you think it should settle by end of FY2019, the total deposits?

Sanjeev Srivastava: If we go in the last year, which has gone by, we have added close to about Rs.2800 Crores of liabilities, out of which our CASA has been 42% and liabilities had been 54%. So similarly, what we anticipate is that currently we are at about 35%. We expect it to be somewhere around in the band of 37% to 38%.

P.N. Vasudevan: And in terms of deposit as a percentage of total borrowing, in March, we were 45% of the total borrowing, from deposits. And next year, because of some of the scheduled repayments of the grandfathered loans and the NCDs, etc., that 45% should reach around 70% based on the repayment of some of the grandfathered borrowings.

Madhuchanda Dey: Okay and sorry, just one small question if I can ask you. In light of whatever you have guided for your advance growth, which is to the tune of 35%, now the credit cost normalization should happen. So what kind of ROA are you looking at in FY2019?

P.N. Vasudevan: We are not really guiding on that at this point in time.

Madhuchanda Dey: And are you guiding on your credit cost for FY2019?

P.N. Vasudevan: Not really. But we can say, overall, that we are actually, we do not normally give guidance on anything, except our advance growth. But if you see our credit cost, it is around 2.5% in the last year, and current year, you should be able to see some improvement on that because basically the overhang of the demonetisation thing is all kind of behind us, and we should be looking at a more normal levels of credit costs. And our opening NPA is 2.72%. So that is where the credit cost is going to come out of. So I mean, you should be able to factor in based on that, but other than the advance growth, we are actually not guiding on anything else directly.

Madhuchanda Dey: Thanks and all the best.

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

Manish Ostwal: My question on this asset mix strategy, Sir, we have universal bank called Bandhan Bank, and they are doing extremely well in MF business. Secondly, one of the leading bank also ventured big way in the MF business, but the management of Equitas believes unsecured MF should be reduced 10% by over the next few years. Why we are believing this business overall this business that overall, this written tradeoff is not superior? And we have been doing this business with a reasonable timeframe also so why we believe this business not good for us?

P.N. Vasudevan: Well, that is a difficult question to answer because you are trying to ask me what is the rationale of some of my competitors of which I actually, frankly have no idea at all. So I will not be able to comment anything about what someone else is saying or doing. All I can say only is from our own perspective. We setup microfinance in 2007. And not just in India but globally, we are regarded as one of the most efficient microfinance providers. And our operating efficiency, our operating process controls and our ability to leverage technology, everything is regarded as amongst the best globally in terms of the microfinance operations. And as I mentioned earlier, we have a current GNPA of around 0.75% in microfinance, which is more or less the normal standard levels of NPA associated with microfinance as a product. But now in terms of our risk assessment, in terms of our portfolio mix, etc., I think that is largely a very individualized decision making that each organization does as to which segment do you want to be in and which segment you want to have a presence and what kind of distribution you want on your various products. I think it is significantly a decision taken by institutions, which is very much closer to what they believe from a risk-return perspective. So beyond that, it is very difficult for me to tell you what percentage is right and what percentage is wrong and things like that. And if someone else has a strategy, which seems to be different from us, I mean, I would not be able to really comment beyond that.

Manish Ostwal: Appreciate it, Sir. Add-on to this is the risk-adjusted return on asset with respect to our asset loan mix and resulted overall ROA given that balance sheet leverage, will it be significantly different because since we are moving into secured business arc, overall expected credit cost and will be much lower than the unsecured business. So overall, risk-adjusted ROA, how it will be different from the earlier asset mix business?

P.N. Vasudevan: See, I think that is something we have mentioned in our earlier presentations in the previous quarters also, in terms of over a period time. When I say, over a period, I mean over a period of a few years, what kind of a typical ROAs and ROEs should be expected from a portfolio of this kind. I think we have kind of given that in our previous presentations, which is approximately, something like an ROA of 2% to 2.5%, and the ROE of anywhere around 16% to 18%. So that is the kind of steady-state ROAs and ROEs one should expect from a small finance bank which operates on the liability side by mobilizing deposit. And on the lending side, typically it is distributed across the kind of products that typical opportunity preference for SFBs.

Manish Ostwal: Sure, Sir. Second question on the operating expenses side, you said ROA of 2.5% steady state. So in terms of operating expenses, what is the steady-state cost-to-income ratio for Equitas?

P.N. Vasudevan: See again, that will be very specific to each institution, your cost-to-income. So for example, in our case, it is 76% as of March 2018. And on a steady-state, give us a couple of years' time and assuming that we are able to produce a strong growth on our advances etc., etc., I think our cost-to-income is still be at a level, which is higher than most of the traditional banks. So it could still be in the range of 60%+ because that is the kind of operating model that we operate in. The operating expense would be on the higher side since our ticket sizes are expected to continue to remain very small. And for the management cost of both credit, cash flow assessment, credit assessment and collection should continue to remain high. Of course, the yield will remain proportionately higher than traditional banks but so will your operating cost be, compared to traditional banks. So I think on a steady-state basis, maybe you can say 60%+ could be a level where it can stabilize for someone like us.

Manish Ostwal: And Sir, in terms of balance sheet leverage, currently, we have very strong capital position. So what kind of leverage we can see next couple of years? And whether the current capital is more than sufficient for next 3 years balance sheet growth? Or how do you assess that?

P.N. Vasudevan: Yes, we have quite a strong capital base right now. So the whole objective will be to leverage it over the next maybe 2, 3 years. We are still not having much Tier 2 also. So once we kind of exhaust our Tier 1 capital maybe over the next 2- or 3-year period, we still have an opportunity to look at any of the possible Tier 2 bonds and statutory capital to that extent. So those are decisions that will have to be taken as the situation comes up. But, clearly, yes, the objective is to leverage the capital, current capital over the next 2 to 3 years' time.

Manish Ostwal: And lastly, one small data point, what is the rate currently we offer on the MF loan, microfinance loan?

H. K. N. Raghavan: It is 23%.

Manish Ostwal: Thank you Sir.

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

Nidhesh Jain: Yes, it has been almost 1.5 years since you have transitioned into a bank and looking into next 3 years, you are guiding for a 2.25% sort of ROA. What is the biggest challenge or risk to this number in your view over next 3 years?

P.N. Vasudevan: The biggest challenge for a model like ours in terms of reaching a steady-state operating metrics would be the quality of our book. So that will be the biggest challenge. See, on the liabilities, our challenge will continue to remain in terms of mopping up and mobilizing deposits. But even if my cost of deposit is 0.5% more than what we expect or something like that, it is not going to dramatically impact my operating metrics because we operate in markets where demand continues to remain very strong and supply continues to remain very weak. So growth per se is something that we can pursue. But, clearly, the challenges of managing our book, largely comprising of people from the informal economy to the tiny micro and the small enterprise segment, that is going to be the challenge. And it is not an easy challenge. There is a lot of challenge in that. The reason why there is not enough supply of loans, money to that segment, is obvious. And so those challenges remain and our ability to manage the challenge and manage to retain a very strong quality of our book, I think that is a single biggest factor which we should be constantly focusing and monitoring as we try to move the bank over the next 3 years.

Nidhesh Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sohail Halai from Systematix Shares & Stocks. Please go ahead.

Sohail Halai: Good evening Sir. Sir, just wondering to check about what is the yields that we are offering on the Business Loans and the Corporate loans?

P.N. Vasudevan: See, Business Loans, there are 2 types. One is the secured and the other is the unsecured. The secured goes at anywhere around 10.5%, 11%, 12% to maybe 13%, 14% depending on the type of customer and the quantum of loan, etc. Unsecured Business loan typically goes in the range of around 16% to 18% to 19%, again, depending on the type of customer background as well as the quantum of loan.

Sohail Halai: Okay. And Sir, Corporate Loans?

S. Bhaskar: Corporate loans, of course, is a very small book, and when I say corporate, I do not really mean corporate. We really mean something like a small to mid-corporate, and largely that also is institution funding. So the rate there, if it is institution funding, then the rates could be around 10% to 10.5% or something in that range. For the small-to-medium corporates, again, depending on the rating, if they do have a rating at all, and depending on the financials and price, etc., the rates can vary around 10.5%, 11% to 12% probably.

Sohail Halai: Okay. And Sir, in terms of Business Loans, how much of the book would be currently secured and how much would be unsecured?

P.N. Vasudevan: The Rs.411 Crores is the unsecured book, and approximately around Rs.200 Crores would be secured Business.

Sohail Halai: Okay. So Sir, as we see this proportion going up in the coming quarters, what kind of pressure can it actually draw down on our yields? And secondly, in terms of debentures that we have of around Rs.1700 Crores odd, what will be the rate on that? And how long will it take to maturity? So, for example, in FY 2019, how much of them will get matured?

P.N. Vasudevan: See, I already mentioned that our deposits form 45% of the total borrowings as of March 2018, and then March 2019, based on some of the scheduled repayment of our grandfathered loans, the deposits should move up to around 70%. So that is the expectation in terms of deposit and grandfathered loans. And on the yield you were saying, the yield on advances should come down because of the introduction of the lower-yielding products. Naturally, it should come down. Whether the margin will also come down is something that obviously we will be working very hard to try and see to retain it where it is currently.

Sohail Halai: Okay. Sir, I was talking in terms of debentures, NCDs, around 1700-odd they all will get matured in FY 2019?

Sridharan N: No. Actually, it can be 2 years. The current year, it will be Rs.1100 Crores, and the next year, it will be Rs.600 Crores.

Sohail Halai: And Sir, interest that we are paying on that will be something 11%, 11.25%, right?

Sridharan N: Yes, around 11% to 11.5%.

Sohail Halai: Okay. And Sir, lastly, in terms of PSL, how much of a book qualifies for PSL?

P.N. Vasudevan: See, we have to have 75% of PSL target that we have to meet.

Sohail Halai: Yes. So currently, how much of the book qualifies for PSL?

P.N. Vasudevan: See, those are data that we would not want to put out in public space.

Sohail Halai: Sir, this is in respect to just to gauge in terms of what is the kind of a fee that you can earn from PSLC?

P.N. Vasudevan: I know but...

Sohail Halai: What is the kind of a cushion that is there?

P.N. Vasudevan: Some information that we are really very uncomfortable putting out in public space.

Sohail Halai: Okay, okay. So Sir, let me put in another round. So can we expect a decent PSLC fees next year? Or are we actually expecting it to be in the low 20, 30 kind of crores odd?

P.N. Vasudevan: Why do not you ask me a few more specific questions like that? So you will have to just wait. At the end of this quarter, we will tell you how much we made. (laughing)

Sohail Halai: (laughing) Ok, sir. Got it. Thanks a lot Sir.

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

Jai Mundhra: Thanks for the opportunity. Sir I believe I missed you mentioned something about the ticket size in this new vertical small and mid corporate loan so what is the broad ticket size there Sir?

P.N. Vasudevan: The ticket size there today is around Rs.15 Crores, but that is also including some of the institutional funding that we do. So it includes that. And the average currently from that division is around Rs.15 Crores.

Jai Mundhra: What would be the broad range there roughly or may be now and your vision of how this vertical would the ticket size in terms of range?

P.N. Vasudevan: Normally, that division would not do less than Rs.5 Crores because that will be done by the MSE division. And on the higher side, of course, we have the regulatory cap of 10% of the net worth and all that, but internally, we have some risk kind of limits put in by our internal risk team. So those are very internal information that is difficult to give that publicly.

Jai Mundhra: Sure. And Sir, secondly, on vehicle finance. First, Sir, we are having a gross NPA ratio of around 4.9% there. So first, I wanted to understand how do you see that ratio going ahead in FY2019 considering there is some positive business momentum for both CV players as well as CV financers? And secondly, what would be the rough proportion of new CV and used CV there?

P.N. Vasudevan: Yes. The NPA should kind of, hopefully, remain steady for the current year because it has come down well. It has come down quite well over the previous years. So we hope to hold it steady for the current year, and the markets are doing very well. The commercial vehicle market is doing well. Our own collection experience in the last 3, 4, 5 months continuously has been very strong. So we do expect the portfolio to kind of retain its quality going forward. And in terms of the mix of used and new, the new will be still a very small percentage. I think the new will be probably less than 5% of the total book, within the Commercial Vehicle space, but this year, the new should go up from 5% as we traction builds up on that.

Jai Mundhra: Sure, sir. And just last one data point, sir. If you can share the cost of our SA deposit on a blended basis?

P.N. Vasudevan: Sorry come again.

Jai Mundhra: Sir the cost of saving deposits on blended basis?

P.N. Vasudevan: In slide 20, we have given this ratio; the cost of deposit is 6.5% in Q4, FY2018.

Jai Mundhra: Correct, so this is for full deposit if you can share the cost of SA deposit only?

P.N. Vasudevan: SA? SA we are paying 6% of the Rs.10 lakhs and 6.5% for more Rs.10 lakhs balances.

Sanjeev Srivastava: So on a blended basis, it would be somewhere around 6.3odd percent. It has got to be some amount of below Rs.10 lakhs and above Rs.10 lakhs. We do not have any other preferred rate, which we offer, as of now.

Jai Mundhra: That is very helpful. Thank you.

Moderator: Thank you. The next question is from the line of M B Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Good afternoon Sir. Sir, just 4 questions from my end. One, and I know this question has been repeated from my side last time as well, on the MFI business, I just wanted to understand: a, what is the average ticket size as we speak today? And two, when we go to the market, we continue to see a fair amount of reluctance on Equitas MFI where they have not kind of increase the ticket size as compared to the rest of the players. Just wanted to understand where are we on the MFI business? And how profitable is this book going to be if you continue to keep a very low-ticket size in the MFI business because incrementally you will start losing customers in the second and third leg quite steeply as compared to the rest of the players? A question to Vasu, you had indicated that you would want to kind of move a fair amount of your MFI customer base into the individual lending side. We have kind of past through a year. Just trying to understand how has been the experience on those customers who have moved into the non-MFI bucket? Third question is on your interest rate risk? My third question is on the interest rates risk. Are you taking anything on the incremental liquidity management that you are doing? Any interest rates risk that you are taking on that front?

H. K. N. Raghavan: This is Raghavan here and you have been consistently asking the question since last quarter, and I'm consistently telling in terms of our approach as for microfinance ticket sizes are concerned. The average ticket size today is around Rs.22000, including a mix of first cycle, second cycle and third cycle put together. We have a very strong belief that microfinance as a product itself is an unsecured loan where there is no credit assessment done of the clients. So hence, we have to hear the fare on the right side always. So very clear that in terms of ticket size over the last 3, 4 years, we have been very prudent in terms of increasing the ticket size while the market has gone up and then increased but that is left to them. And we continue to be cautious on the microfinance, and the ticket sizes will be growing only based on some logic, which we will have to decide. Number two, in terms of the second question was about opportunity, right, because are we losing out in terms of opportunity because we are not raising the ticket side. I think since last 4 to 5 years, when competitors are offering Rs.50000, we are offering only Rs.25000. And the market is too large, and the penetration is definitely still long way to go. Hence, as long as the market is able to consume our ticket size, we should not face any problems. So that is a stand that we take. And the third question was?

M.B. Mahesh: No, just kind of highlighting the fact, is the portfolio going to be as profitable as, what you have seen, some of the other players because the challenge is that if your ticket sizes are low, the opex for running such a low ticket size is going to be materially higher, right?

H. K. N. Raghavan: No, no, it is not the question of ticket size. It is a question of efficiency and productivity. So if you look at the per staff productivity, nearly almost 2.5x of any other near competitor. So to an extent even that mitigates my lower ticket size. So hence, it should not impact the profitability at all, and operating costs go by.

M.B. Mahesh: And the transition from MFI customers to individual side, you've indicated that there is also a possibility of around 10% to 15% that you can move to individual loans?

H. K. N. Raghavan: Correct.

M.B. Mahesh: Where are you on that?

H. K. N. Raghavan: Currently, if you look at it, close to 45% of the loans that we have disbursed belongs to our microfinance clients. So that is a kind of a potential that we have and the portfolio quality is extremely good, the NPA is around 1.1%.

M.B. Mahesh: And the interest rate risk?

P.N. Vasudevan: On the interest rate on treasury it is tightly managed where we are not taking an interest rate risk on that.

M.B. Mahesh: It is a match duration that portfolio you are saying?

P.N. Vasudevan: Totally.

M.B. Mahesh: Thanks a lot.

Moderator: Thank you. We will take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: Most of the questions have been answered. Just what is the geographical distribution of the non-micro portfolio broadly?

P.N. Vasudevan: Okay. In terms of geography, other than microfinance, again, it depends on product-wise because our M-LAP, which is a cross-sell product to the top ten of that microfinance customer, naturally, it will align with the geographic the traditional microfinance itself. In terms of commercial vehicles, commercial vehicles, nearly about 35% is from Tamil Nadu and 50% from south and the rest from the west and north. In terms of the new products, more or less they are evenly distributed because even as we start, the products are offered across the location so they are historically evenly distributed. Historically, what happened is that we started in Tamil Nadu with all our branches in TN and then we started expanding through other states. So you see, TN weight is high on the old products like microfinance and M-LAP. When we started vehicle finance, we had the first few branches in TN, but immediately, we had started putting up branches for VF, vehicle finance in other states. That is why we see a larger distribution across the rest of the geography. But as far as the new products are concerned, our entire branch distribution already is in place across south, west and north. So any new product that we launch immediately gets launched in different markets, and so the distribution of these products is kind of more wider spread even from the beginning.

Dhaval Gada: Sir, broadly would you agree that about 50% of our loan book are non-micro loan book will still be in TN and that is decreasing over the period of time, is that we should think about it?

P.N. Vasudevan: What percent you said?

Dhaval Gada: 50%, because you said M-LAP is broadly mirroring the micro portfolio?

P.N. Vasudevan: Yes, so that is what I told you know, in product wise if you take it this is the distribution I just mentioned, if you aggregate it, I do not know, I have to find out.

Dhaval Gada: Sure Sir, no problem. Thanks.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. S. Bhaskar for his closing comments.

S. Bhaskar: On behalf of Equitas management, I thank all of you for your interest in our performance, and we look forward to your continued interest and participation. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Equitas Holding Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.