Equitas Holdings Limited

Q2 FY18 Results Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the Equitas Holdings Limited Q2 FY2018 results Conference Call. We have with us today, Mr. S. Bhaskar - Executive Director & CEO, Equitas Holdings Limited, P.N. Vasudevan - Managing Director, Equitas Small Finance Bank Limited, Narayan T.S. - EVP & Head - Treasury, Equitas Small Finance Bank Limited, Sridharan N - Chief Financial Officer, Equitas Small Finance Bank Limited, Srimathy R - Chief Financial Officer, Equitas Holdings Limited, Raghavan H K N - President - Inclusive & Outreach Banking, Equitas Small Finance Bank Limited, Murthy V.S. - President-Emerging Enterprise & SME Banking, Equitas Small Finance Bank Limited, Sanjeev Srivastava - President & Country Head - Branch Banking, Liabilities, Product & Wealth, Equitas Small Finance Bank Limited and Mr. Dheeraj M - VP & Head-Strategy & IR, Equitas Small Finance Bank Limited. As a reminder, all participants' 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 conference over to Mr. S Bhaskar. Thank you and over to you Sir!

S. Bhaskar: Thank you. Good afternoon everyone and thanks for your participation in the Q2 FY2018 earnings call. During Q2 our bank branches and products rollout progressed well. Micro Finance business is gradually coming out of the adverse impact of demonetization. We see some positive signs to the Micro Finance portfolio recoveries. During this quarter, non-Micro Finance portfolio grew over 35% on YoY basis. Due to the bank transition cost and impact of Micro Finance portfolio, consolidated PAT for Q2 was 10.9 Crores, which was lower than the corresponding quarter of last year.

Now I hand over the call to Mr. P.N. Vasudevan to take you through the bank's performance.

P.N. Vasudevan: Thank you Bhaskar. Good afternoon everyone and thank you for dialing into our call. We completed one year of banking operation in September and during this one-year we have achieved various milestones. We now have 392 fully operational liability branch centers. We have crossed ₹ 3,000 Crore of customer deposits with weighted average cost of funds at 8.7% for Q2. This compares to 10.7% we had as weighted average cost for Q2 of last year. Our current marginal cost is at 6.5%. Our new loan offerings have gathered momentum and they now form 7% of our loan book compared to 3.5% in the previous quarter.

Our non-Micro Finance book continues to show robust growth with disbursements up 50% and loan outstanding up 35% YoY. We remain optimistic of growing our overall advances by 15% in FY2018 despite the continued decrease that we expect in the Micro Finance portfolio. During this year of transition, our asset quality was impacted by various macro factors like demonetization and GST. Our overall GNPA stands at 5.76% as of Q2 with 5.3% of non-Micro Finance GNPA. We expect the non-Micro Finance GNPA to come down to the March 2017 levels by end of this financial year, as H2 is traditionally better than H1.

Our opex has now reached a steady state and operating leverage is expected to help us benefit from the cost that we have invested so far in the liability business. Our focus would be to leverage the existing network of 392 branches and we do not envisage any significant addition to our current branch network. Now our various business heads will walk you through our Q2 performance in detail.

Sanjeev Srivastava: Hi everyone, this is Sanjeev here. During Q2 we added about ₹ 850 Crores of customer deposits. Our total deposits now stands at about ₹ 3,100 Crores. We grew our CASA by ₹ 290 Crores to finish at ₹ 875 Crores in Q2 and now our CASA ratio stands at 28% up from 25.8% in Q1. Liability fee income has started gaining traction. It now forms 17% of the bank's non-interest income, within 12 months of banking operations. Our deposit customer base has crossed 1.6 lakhs and excluding the asset customers, our average balances have been pretty healthy. We have a customer base of about 1 lakh in current account and 56,000 for savings account. We have introduced the Visa variant for our debit cards and the loyalty program "Equinox" is live. We have 392 branches and about 3,700 branch banking employees. We do not foresee any major increase in either of these. Of the branches, 90 are in metro, 103 in urban, 100 in semi-urban and 83 in rural areas. We have put in place 16 BC banking outlets and there would be further action in this space in the coming quarters.

Now I hand over to Mr. Raghavan.

Raghavan H.K.N: Good evening to everyone. The inclusive banking channel continues to see good traction in micro-LAP, agri and business loans. Agri and business loans now contribute to more than 5% of the total book. The housing portfolio has also seen some momentum, growing more than 15% year-on-year; and micro-LAP continues its robust growth up 26% year-on-year. Inclusive banking division continues to focus on lending to the under banked with more than 90% of our borrowers being first-to-bank customers. With non-Micro Finance loan outstanding continuing to grow over 35%, the total non-Micro Finance portfolio has already reached 64% of the total advances. This contribution is expected to increase over the next quarters.

On Micro Finance, AUM dropped by 660 Crores since March 2017 while monthly disbursements have come down by 150 Crores compared to the pre-demonetization levels. We are seeing conditions improve in Maharashtra and Madhya Pradesh. We have seen reduced political interferences, improved client engagement and customer behavior has turned more cordial. Our Portfolio at Risk[PAR] has remained nearly flat compared to Q1 and in the month of September, we saw our PAR reducing on a month-on-month basis. Given the improvements in ground level conditions, we hope Micro Finance may perform better in the second half than the first half.

Now, I hand over to Mr. Murthy.

Murthy V.S.: Good evening. This is Murthy. Our vehicle finance book grew by 17% year-on-year and 40% of business comes from medium and heavy commercial vehicle segment and movement of goods was slow in the segment during Q2, due to delay in implementation of GST systems by suppliers. The movement of goods in other segment like, small and commercial vehicles was not impacted.

From being a single product focused business we expanded our offering by launching new LCV finance in Q1. We have seen good traction in this segment; with around ₹ 44 Crores disbursement in Q2, compared to around just ₹ 6 Crores in Q1. The slow movement of goods also had its impact on collections and our GNPA value has gone up over Q1. But we expect GNPAs to come down, as Q3 and Q4 are traditionally better periods for vehicle financing and the impact of GST also wanes off. We could see the positive trends in September, already.

Now I hand over the session to Mr. Sridharan.

Sridharan N: Assets Under Management[AUM] as of September 2017 stood at ₹ 7,326 Crores up 3.5% year-on-year. Non-Micro Finance portfolio grew by 35% year-on-year while Micro Finance portfolio was reduced by 27% year-on-year in line with our strategic response. NII for Q2 FY2018 grew 14% YoY, while we saw good traction in non-interest income of ₹ 34 Crores, up 20% year-on-year. The cost of interest has significantly come down at 8.7% for Q2 down from 10.7% in the same quarter last year. We have reached a stable run rate in opex during the quarter. It has all bank transition cost built in with 60% of opex attributable to employee cost.

Total GNPA was ₹ 370 Crores as of Q2. Touching upon the Micro Finance GNPA, we have a total on book PAR of ₹ 176 Crores of which ₹ 140 Crores constitute the GNPA. Of this ₹ 76 Crores is provided for. As Raghavan mentioned earlier, we are seeing some improvement in the Micro Finance portfolio asset quality. Further provisioning requirements will be done as per RBI guidelines.

With this, I hand over the session to moderator for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Rajatdeep Anand from Canara HSBC Life Insurance. Please go ahead.

Rajatdeep Anand: Good evening. Sir, two simple questions, one is on non-MFI growth in NPA; you are saying this likely to come down as H2 is better, but only to about 4.5% kind of levels, last year levels, right?

P.N. Vasudevan: Right.

Rajatdeep Anand: Why is the gross NPA number like this for your customer segment, I mean it is on the higher side compare to what we see for most private banks and also secondly I would like to understand the roadmap to profitability.

I would expect well done bank like Equitas to eventually get industry leading profitability both in terms of ROA and ROE, so when will you reach that something like 2% plus ROA and about 18% to 20% ROE?

P.N. Vasudevan: On your first question in terms of why is the NPA in the range of around 4.5% etc., you know that is the kind of customer segment that we deal with; and if you see our overall yield also reflects, both the operating costs that we incur for servicing this profile of customers as well as the credit cost that is typical of this profile of customer. So typically you would see this level of NPA when we deal with a profile of customers that is similar to ours. And as Raghavan mentioned earlier nearly 85% to 90% of all the customers that we finance are actually FTBs – the FTBs meaning first time to bank customer. So that is the profile of our customer. Naturally risk is higher and the risk is mitigated only through a very elaborate credit and cash flow analysis that we undertake. And also the lending rate takes care of the extra charge on P&L, which is always a given when you deal with this profile of customer. In terms of when do we expect to get back to, let us say a good ROA, ROE, etc., if you remember some of our earlier quarter's presentations, before we became a bank, our ROAs used to be in the range of around 3%+. And so the expectation was that after we become a bank and we incur a fairly substantial cost for converting into a bank, the ROAs would probably have to come down to a level of around 1.5% before they start climbing up again as we leverage on the expenses incurred for liability business. That is what was expected before we converted into a bank and all our plans are actually working quite in line with what we had expected. Except the fact that post demonetization there has been a significant impact on Micro Finance and this is what has really impacted the ROA, to the extent of just being 0.5% today. In terms of by when and by what time we expect to get back to the more reasonable levels of ROAs and ROEs, obviously I am not right now going to give a guidance in terms of the exact period; but clearly the indicators are very strong, it is visible on the presentation that we have put out. The traction on our deposit has been comfortable. The cost of funds has been coming down, very much in line with what the transition to bank should expect. And the fee income traction is also coming along quite well. The non-Micro Finance book growth and overall yield remains quite buoyant. We think that it is a question of time. The Micro Finance book, as Raghavan, mentioned has gone down by ₹ 660 Crores in the first half of this year. It is expected to go further down in the second half; may not be to the same extent, but to a little lesser level. At some stage, Micro Finance should kind of plateau off and once it comes to a percentage of the overall book, which is comfortable to us, then Micro Finance will also start growing at the rate of overall growth of the bank. So, somewhere along that time is when we probably will see a more reasonable or more normal levels of ROAs and ROEs.

Rajatdeep Anand: Can you give us more colours as to how the non-Maharashtra piece of Micro Finance is shaping up for you and in some few isolated districts?

Raghavan H.K.N: You would like to know the non-Maharashtra Micro Finance?

Rajatdeep Anand: Apart from a few districts wherein the political interference had caused problems, is the rest of the portfolio above 90% collection efficiency? Is the business that you have sourced after January; is that above 90% collection? I am just asking, I would like to know if you could give more colour on it?

Raghavan H.K.N: First thing is that, in Maharashtra, there has been an incremental progress in terms of collections and in Maharashtra state except for the districts of Karad and Satara, rest of the places are near normal in terms of being incident free and in terms of the reduction in hostility which was there earlier. It is quite near normal. The disbursements – as we had been telling that we have been disbursing to clients who have paid to us – those clients to whom we have disbursed post January, the collection rates are around 99.5%.

Rajatdeep Anand: Great, so those were our questions. Thank you very much.

Moderator: Thank you. We take the next question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Thanks for taking my question. Firstly, in terms of liability franchise, even though may be as of now there is almost like ₹ 8 Crores of deposits per branch and ₹ 2.5 Crores kind of CASA per branch, but if I have to look at it in terms of 112 odd branches, which were opened in Q3 of FY2017, how would the overall deposits per branch and CASA per branch be in the more matured or say more seasoned branch over last nine to 12 months?

Sanjeev Srivastava: Hi Kunal, this is Sanjeev here. Basically, post becoming a bank as of now we are at 392-odd branches, we set them up in the last one-year. Last quarter, we have added 67 odd branches and yes your question is right, we have ₹ 2.5 Crores kind of CASA as of now per branch; so what exactly are you looking for in terms of this question.

Kunal Shah: I am looking at something, which was opened prior to December of last year, 112 branches were opened prior to December, so what is the CASA per branch out there and what is the overall deposits per branch, so I just want to know may be with the one year seasoning, what is the deposits per branch at that level, so today may be most of the branches are opened over here, but if I have to look at it prior to December the branches which were opened?

Sanjeev Srivastava: Kunal, basically we became a bank in September, we were building all the projects, the processes in the organization, we were setting up the entire branch distribution network, so initially in the first four months focus was on garnering the retail term deposit, so we were not actually tracking the branches at that time on CASA because the first objective was to start raising the liability deposits. But now we can say that in the last six months we have completed the entire journey and we have got all kind of CASA projects backed by proper support system to go for a better quality of account as well as to get the CASA built up going on.

Kunal Shah: What would be the ideal per branch, which we are looking at both in terms of deposits as well as CASA per branch?

Sanjeev Srivastava: We are looking at close to about we are in line with the competition we are looking at close to about 50 lakh to 60 lakh of CASA retail growth per branch going forward.

Kunal Shah: In terms of MFI what you have highlighted is may be as a proportion it could come down, but as you mentioned the overall conditions are improving and PAR is also nearly flat, so would it be more kind of the growth in the non-MFI, which would lead to the proportion down or maybe there would be a further run down, which would be happening on the MFI portfolio from here on?

Raghavan H.K.N: This is Raghavan. The focus will be still be on non-MFI products. We will continue to grow them the way we are growing. As far as MFI is concerned, we are only saying that the ground situation is better. It is no near normal to pre-demonetization levels at all. Couple of quarters ago our staff were unable to even go to the field to collect their dues and installments and now at least the staff is able to engage with the client. When I say things are better, we are going back and educating them the importance of keeping the track record better and so they have to come back and make repayments, and so they will start their repayments. In that sense yes I would say that the situation is better; but whether the time is now set to go whole hog on Micro Finance, not yet.

Kunal Shah: So, there could be still be some rundown, which could be there in this portfolio?

Raghavan H.K.N: Yes.

Kunal Shah: Lastly in terms of cost to income so definitely it is quite high in Q2, but even on the absolute term what is the kind of cost to income, which we would look at for say FY2019. Are we done on the absolute side, so inflationary growth could be there, but otherwise it is broadly under control and improving income profile should bring it down further?

P.N. Vasudevan: Basically our cost are like – last quarter's discussion also we have mentioned that our cost has more or less peaked – and you can see that indeed it has more or less peaked and we do not expect any significant increase in the cost going forward. Even Sanjeev was mentioning that number of branches we may add may not be very significant over the next four quarters; so more or less our cost has peaked and now the whole question is really leveraging the investments that we have made so far and getting our profitability back. And obviously reduction in the cost to income. So you should be able to see a reduction in the cost to income as we keep leveraging our various investments. In terms of where it will end, is something that we are not right now predicting, but definitely the cost has peaked and so the leveraging will really help us keep taking a turn as we go forward.

Kunal Shah: But is 65% visible over next six quarters or no?

P.N. Vasudevan: I will tell you later, after a few quarters. Not now.

Kunal Shah: Thank you.

Moderator: Thank you. We take the next question from the line of Abhishek Murarka from India Infoline. Please go ahead.

Abhishek Murarka: Good evening everyone. Sir, my first question is on the non-MFI book where GNPAs are also going up, so can you give a sort of breakup into where exactly the NPA is increasing whether it is in new CV or MSE or housing finance?

P.N. Vasudevan: Basically the increases are in the used commercial vehicle finance. The others are more or less stable and used vehicle as Murthy was explaining, we had a lull period in the month of July and part of August because of the various confusions with GST and billing not really happening and freight being affected. The others are more or less normalized.

Abhishek Murarka: So you had UCV i.e. used commercial vehicle GNPA was somewhere around 6.5% in 4Q; where would it be now?

P.N. Vasudevan: We are not really giving you the breakup in terms of products because we have so many products now, but as I said earlier the increase is principally from used commercial vehicle and others are more or less stable.

Abhishek Murarka: Second thing is on Micro Finance can you share some numbers like your collection efficiency by state may be a couple of large states or two or three states, can you share the overall collection efficiency in those states?

Raghavan H.K.N: See in terms of Micro Finance collection efficiency state-wise – Tamil Nadu contributes almost all 68% of the total portfolio and the collection efficiency is 99.5 and followed by Maharashtra, which contributes around 14%, the collection efficiency is 72.5 and the next big state is Karnataka, there it is 77.3 and in these states especially in Maharashtra we have seen the collection efficiency improving by close to 1%.

Abhishek Murarka: In the previous quarter it must have been 71.5 roughly?

Raghavan H.K.N: Yes. I think I was telling that the Maharashtra contributes roughly around 14% after Tamil Nadu. Tamil Nadu contributes 68%.

Abhishek Murarka: 68, this is the contribution of the AUM?

Raghavan H.K.N: That is right.

Abhishek Murarka: And what about Madhya Pradesh, MP?

Raghavan H.K.N: Madhya Pradesh contributes around about 6% it is at 82.5.

Abhishek Murarka: 82.5, you know when I compare this to the numbers you had given in 4Q except for Tamil Nadu there is a decline pretty much in other three states, but you are saying that incrementally things are improving in these states, so I understand there will be a lag effect also so probably next quarter onwards we should see an improvement in these numbers?

Raghavan H.K.N: I really hope so.

Abhishek Murarka: Okay any particular reason why they have been worsening or is it that 1Q to 2Q is there improvement?

Raghavan H.K.N: You see 1Q to 2Q if you look at it from on a month-on-month basis from 1Q to 2Q, for example Maharashtra was 71.7 now it is 72.3. There is a marginal improvement whereas Karnataka it has dropped by 1%, but if you look on month-on-month there has been an improvement from

August to September. So overall efficiency if you look at it, it was at 93.9 in August, which improved to 94.1. When you look at June quarter to September quarter it is absolutely stable at 94.5% in overall level.

Abhishek Murarka: Finally in terms of PSLC last quarter you did quite a bit I think, so what was in this quarter the PSLC related income and how much did you actually sell that?

Narayan T.S.: This is Narayan here. During the current quarter ending September we accumulated the PSLC assets for our own requirement and as you would know Q1 is normally the quarter where premiums are higher, so whatever our bookings were there we could do it in the Q1. And for Q2 we concentrated mainly to achieve our own requirement.

Abhishek Murarka: So there was very little there in terms of PSLC income?

Narayan T.S.: Yes.

Abhishek Murarka: Thank you.

Moderator: Thank you. We take the next question from the line of Ravi Singh from Ambit Capital. Please go ahead.

Ravi Singh: Thanks. My question has partly been answered, but just one bit on this non-Micro Finance book, what is the spread geographically and is the asset quality experience same across all states or are there any particular geographies where you would say NPAs are higher?

Murthy V.S.: This is Murthy here. Within the non-MFI book, vehicle finance contributes some significant number, so within vehicle finance if you look at the margins our lending rate is around 21%. The spreads are similar across states. There is no difference. Coming to distribution, the south contributes 50% of the total volume. It is around 30% in Tamil Nadu and balance of Karnataka and AP and around 35% comes from west and it is again largely from Maharashtra and the balance comes from north.

The NPAs experience is more or less same across all zones and specifically if you look at it, it is a little bit higher in NPA in Madhya Pradesh and in the last quarter there is slight increase in Punjab and Haryana because of some local disturbances. Otherwise, the spread is more or less same across all the states. There is no significant single area contributing largely.

Ravi Singh: Thank you.

Moderator: Thank you. We take the next question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Sir, my first question is that out of your total disbursement how much disbursement happened through your own bank accounts?

P.N. Vasudevan: See out of our non-Micro Finance disbursement approximately about 60% of our disbursement was into accounts opened by customer with Equitas Bank. In Micro Finance post-demonetization from last year itself all our payments have been only disbursed through bank accounts, but those bank accounts will be bank accounts maintained by the customer with any bank of their own choice.

Vishal Rampuria: So can you possibly give the number, how much happened through your own accounts?

P.N. Vasudevan: I told you 60% of our disbursements in non-Micro Finance happened through our own bank accounts.

Vishal Rampuria: You mentioned about 60% for non-MFI and how much for the MFI business?

P.N. Vasudevan: MFI it is 100% through bank account, but not necessarily through our own bank account. It can be any bank account of the customer, but we do not give cash disbursement in MFI.

Vishal Rampuria: Sir on page 14 you have given a split up of your liability fee income, so possible could you give this period of the fee income?

P.N. Vasudevan: Which one you are referring to?

Vishal Rampuria: Sir page 14 you have given that the share of liability fee income is going up, so can you give the split of the fee income?

Dheeraj M: Vishal, this is Dheeraj here. These numbers are really small in comparison so it is predominantly the usual channels like ATM, debit card, POS, and the third party and now we have started to charge customers on non-maintenance of their balances, so it is not a very significant amount right now, so we will give it I think once it picks traction we will give you the split of for the entire year.

Vishal Rampuria: But this number does not include third party right?

Dheeraj M: No it includes third party.

Vishal Rampuria: It includes third party also. One more question on your MFI book how much of your delinquent customers would not have paid a single installment, say in the last three months or the last five months out of Rs.210 Crores?

Raghavan H.K.N: We have currently 2.2 lakh customers who are delinquent. In that one installment paid are close to 35,000 clients in the last one-month. That means basically if you take September, as a benchmark in the last month across different buckets at least the clients who have at least one paid EMI is roughly around 35000 clients whose PAR would be roughly around ₹ 30 Crores odd.

Vishal Rampuria: So basically you are saying around 17% to 18% customers have paid the installment in the last month?

Raghavan H.K.N: Correct.

Vishal Rampuria: How much in the last three months possible to share that?

Raghavan H.K.N: The thing is that in the last three months if you look at the same customer could be coming back so approximately it should be around about 70,000 clients.

Vishal Rampuria: 70,000 clients and out of this PAR of ₹ 210 Crores. How much will you attribute to the State of Maharashtra where you are highlighting a lot of challenges because of your loan waiver?

Raghavan H.K.N: Roughly around 50%.

Vishal Rampuria: 50%.

Raghavan H.K.N: Yes.

Vishal Rampuria: Thank you so much.

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

Nidhesh Jain: Thanks for the opportunity Sir. Sir you mentioned you are looking at a comfortable level of Micro Finance composition in overall book, so what percentage of Micro Finance you will be comfortable in long-term in the overall loan mix?

P.N. Vasudevan: Micro Finance was 46% of our total contribution in March 2017 and in September that has come down to 36%. There is a further expected decrease by March 2018 and it should keep going down as we go forward. Where it is going to stop and when it will stabilize and when it will start growing again is something that we are not going to come out with very sharp response on those kind of questions, because these are things, which will evolve as we go by. But clearly from a directional and from a long-term perspective our objective, we have made that it clear in our earlier calls also, our objective and long-term plan remains very clear and quite the same, which is that Micro Finance has lot of upside potential. There is a large demand. It does meet a very important need of customers who are typically excluded from the mainstream financial market. The yields are generally good and if you are able to have a proper collection experience and do not have any external event related shocks, like what we saw recently, then on that level of risk adjusted basis it does have a fairly good return and of course it is all fully priority sector and within that priority sector some of the loans will also qualify for some of the sub-priority sector categorization. So there is a lot of definite attractions and upside from a Micro Finance portfolio perspective. The downside of course is what we have seen recently when just one event or a set of local and national events can throw it completely out of gear and does produce a very severe shock on the financial system of the lending institution, so that is the downside. So clearly our long-term plan as we have been articulating time and again is that we want Micro Finance and we will definitely continue. There is no doubt on that. Micro Finance will continue to be an important part of our portfolio, but it should form a percentage of the book at which level an external shock like the one we have seen recently should not really have too much of an impact on the bank as a whole, so that will apply not only to just Micro Finance. Of course other products it will be difficult to manage our risks. If any single product becomes too large contributor, so all our focus will be to try and create a portfolio where the product contributions are well diversified and Micro Finance should be one amongst those products.

Nidhesh Jain: Thank you Sir. Secondly on the liability side as of now as I understand we have sourced customer outside of our asset customer base largely and before demonetization we had a piggy bank sort of initiative that we had done on Micro Finance, so what is the plan to tap liabilities from your existing customer base across asset segments?

P.N. Vasudevan: There are two segments. One is the Micro Finance customer and the second is the non-Micro Finance customers and as far as the Micro Finance customer is concerned yes you are right we had given piggy banks. In fact, it was a boon for them when the demonetization happened. In fact, they did not save it with us, but I think everybody appreciated that it came, the money, which they saved came at a very difficult time for them. It helped them a lot because it contained all the small denominations and all. So especially the piggy banks had always Rs.100, Rs.50, and Rs.10, so it was quite a boon for them and the thing is that, yes definitely, we will have to take them on board as far as the accounts opening is concerned, but it is sometime away from now, but what we have started immediately is the on-boarding of Micro Finance clients who are more amenable to the banking transactions and especially because their installments also get cleared through the bank because of it is very important that we need to bring them to the mainstream of the banking. It is not just disbursement to the bank. I think the habit of banking is also very important, so a substantial amount has to be and time has to be spent as far as this non-Micro Finance customers are concerned who can be immediately easily upgraded. And so currently the first phase will be on-boarding all the non-Micro Finance clients and then progressively we will move to the Micro Finance clients.

Nidhesh Jain: Sir Last question on the operating cost, so the last quarter we had ₹ 230 Crores of operating opex, this quarter it is ₹ 220 Crores, so at least for this year we should expect ₹ 220 Crores sort of run rate on a quarterly basis or there could be material increase in that number?

Sridharan N: So more or less the Q2 numbers have become stable as far as the opex is concerned. We do not foresee any major increase or setback on the opex cost. We hope it will continue.

Nidhesh Jain: Thanks a lot and best of luck. Thank you. That is it from my side.

Moderator: Thank you. We take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: I just have one question. My question is that what is the spread difference between our Micro Finance book and our non-Micro Finance book?

P.N. Vasudevan: See if you look at the gross yield currently the gross yield of Micro Finance vis-à-vis the non-Micro Finance may not be very different. The non-Micro Finance will be probably around 150 to 200 basis points lower than the Micro Finance from a gross yield perspective, but if you take the net yield and the risk adjusted return and I am assuming a regular normal level of risk in Micro Finance not the one we have seen recently, but whatever the normal you expect minus any event risk then the return on assets on a risk adjusted basis should be actually the same for both non Micro Finance and Micro Finance possibly.

Digant Haria: Thank you.

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

M.B. Mahesh: Mr. Raghavan my first question to you in the MFI portfolio, have you been able to do any kind of analysis where you have seen your existing stock of bad loan customers and you are seeing a difference in repayment between you and probably whether he/she has got a loan from another borrower?

Raghavan H.K.N: Not exactly; the thing is that now currently we have not reached that level in terms of whether the client has kind of has a better repayment in the other MFI and she has not paid to us. There are a couple of cases when we actually go in and look at it, but we have not done any study on that.

M.B. Mahesh: Is it easy to do this study or not easy to do this study how is it?

Raghavan H.K.N: Quite complex because of the large number of people and centers. Sometimes the credit bureau gives a center wise report. Sometimes it is not client wise report. So I would say it is a bit complex because the client may be of your center, but it may not be a uniform center, so a bit of complexity there. Well I do not say that it cannot be done at all, but what will be the output and what is that we will be able to act on it is also one of the questions.

M.B. Mahesh: My question on the non-MFI portfolio while you indicated that there is a problem on the vehicle finance portfolio is it reflecting also in the micro-LAP portfolio and if not why are not seeing it while it is reflected in the vehicle finance portfolio?

Raghavan H.K.N: I think these two are completely different client segment and product segment because if you look at the used commercial vehicle it will be mostly 80% of our borrowers or the first time borrowers. So he is moving from being a driver to a proprietor. So that shift has to take place and it takes a couple of months for him to kind of understand that and then completely become an entrepreneur, and also the ticket size of vehicle finance would be roughly around ₹ 3.5 lakhs to ₹ 4 lakh and whereas the micro-LAP it is not more than ₹ 1.5 lakh. The client segments are completely different and the income stream is also different.

M.B. Mahesh: As a reason is that there was a slow down. I think you partly explained it in the first part of the call just trying to understand it should not reflect in that portfolio as well?

Raghavan H.K.N: Regarding?

M.B. Mahesh: The delinquencies. While the characteristics might have been different, but in general why is the micro-LAP portfolio showing far better resilience as compared to the vehicle finance portfolio?

P.N. Vasudevan: One reason could be that the MLAP customers 70% were actually cross sell. They have been with us for a few years as Micro Finance borrowers and it is a cross sell. And of course there is no guarantee from the group or anything like that. It is purely an individual loan given to them based on a security of house or property that they give us, but they already have a cash flow stream. They are running some small enterprise or some small business and we do cash flow analysis, based on that the loan is extended, which is then secured by the house property. Maybe that is one reason why it might be showing a different performance given the various stressful circumstances and the macroeconomic factors. Whereas in vehicles typically we do not have that kind of earlier seasoning of another loan after which the vehicle loan is given. So maybe that could be the reason, but anyway let us all remain happy that the micro-LAP customers have behaved very well even during this whole issue of demon and GST and whatever.

M.B. Mahesh: Sir my second question is, customers who have got a loan account today on the Micro Finance portfolio have you started seeing a higher share of your customers actually getting into individual lending products? It may not be by you, but in general if you look at your study today of MFI book have you started seeing overlaps coming in from other NBFCs who have started selling cross selling some other products?

Raghavan H.K.N: We have not found that kind of a trend yet.

M.B. Mahesh: Sure and one last question, liability customers who are active currently, is it a reasonably high number 90% to 95% or how do you look at that number? When you say active probably who has done a transaction in the last 30 days how do you track them if in case you are tracking them internally?

Sanjeev Srivastava: We are basically saying to our customer, who are maintaining balance, and who are basically doing transactions, so this customer who is basically there, who is basically currently live and doing some engagement where we are also basically getting in touch with them and looking for some transaction.

P.N. Vasudevan: But we probably do not have that data right now, so maybe next time we will try and give you.

M.B. Mahesh: So just trying to understand how frequent they are engaging with the bank on various products. Sure thanks a lot. We will probably discuss this in the next concall.

Raghavan H.K.N: But I can tell you a very nice data point, which is that 92% of our transactions actually happen outside the branch both on the ATMs as well as on the Internet or mobile. And if you exclude ATMs from that, if you say on one hand the branch and the ATM transaction and on the other hand transaction is purely on the internet or mobile then the internet or mobile transaction today forms around 46% of the total transaction. So I think that is a very good indicator we see in terms of the clients engaging in non-branch channels. But this data in terms of how many are not transacting for the last 30 days is not something we attract, because right now we are very early in the stage of banking and most of our customers are acquired over the last few months. So right now the customer drop out is not our major concern and we hardly have any accounts which have actually been closed. While people have closed some accounts with us after having opened it, but that number is so small that it is really not something that we need to track at this point in time. So the entire thing of customer engagement and how many are actually not staying engaged, how many are likely to fall off because they apparently are not engaging with us those are things I think it is too early for us. So we are not tracking, but we are more focused on acquiring right now. But those are things we will definitely be getting into as we get more mature in terms of the customer lifecycle with us.

M.B. Mahesh: Thanks a lot for this.

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

Rohan Mandora: Sir thanks for taking my question. Sir this is regarding the employee expenses there has been a sequential decline in employee expenses, so I just wanted to understand what was the reason for the same?

P.N. Vasudevan: Are you referring to some slide? Which slide are you referring to?

Rohan Mandora: The P&L, the BSE disclosure that has come out. From that in 1Q the employee expenses were around ₹ 135 Crores and 2Q it is around ₹ 130 odd Crores and there has also been a sequential decline in the employee count, so just wanted to know we are adding new branches why has there been a decline in the employee count and employee expenses? So what is the internal restructuring that we are doing so just wanted to get a sense on that?

P.N. Vasudevan: No, that is just marginal. See there are some people who come in. There are some people who leave and go out and things like that. So that is just kind of transitional and marginal. The number of employees might have marginally gone down because the number people who have existed might be more than the number of people who came in a particular month or a particular quarter, but it is more or less at the same level.

Rohan Mandora: If you could share the product-wise disbursements in the non-MFL book for the quarter?

Dheeraj M: Dheeraj here. We do not actually give disbursements product-wise. We give you AUMs product wise. What we will do is disbursements we will give it at the end of the year. Right now see our product portfolio is fairly large, in terms of the number of products. And let the products mature then we will start giving that data. So we are right now grouped them as MFI, and non-MFI and as non-MFI becomes larger, we will again start to group it, so bear with us till then, but end of the year we will try to give you a bit more granularity on product level information.

Rohan Mandora: Sir any internal loan growth target that we are working with for FY2018, as well as for FY2019 maybe?

Dheeraj M: So we have communicated that we will be looking at 15% loan growth for FY2018. FY2019 and then above we have not really communicated. So this is this year's targeted growth.

Rohan Mandora: Thanks a lot Sir.

Moderator: Thank you. We take the next question from the line of Sagar Shah from SK Analytics. Please go ahead.

Sagar Shah: Sir my question was in the MFI portfolio just one question. In the MFI portfolio post demonetization starting from January, are we seeing the aggregate level collection efficiency reaching above 99% and how much provisioning has been done or still it is to be done for the demonetization related NPA?

Raghavan H.K.N: As far as the repayments are concerned, it is 99.5. Provisioning Sridharan will get back to you.

Sagar Shah: Provisioning you will get back.

Raghavan H.K.N: Just be on line it will be given.

Sagar Shah: Sure.

Sridharan N: On the provisioning expense, as of September 30, 2017, we had a GNPA of ₹ 140 Crores and we have made a provision of ₹ 76 Crores so far. And further provisioning will be done as per RBI guidelines.

Sagar Shah: So ₹ 64 Crores still needs to be done right?

Raghavan H.K.N: Yes.

Sagar Shah: That will be done in the subsequent quarters?

Raghavan H.K.N: In the next few quarters as and when as per the RBI norms because we are providing based on RBI guidelines

Sagar Shah: Thank you.

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

Sohail Halai: Good evening Sir. Sir just wanted to understand in terms of the new products it actually now forms something around 20% of the incremental disbursement that they did this quarter and 7% of the AUM, so what is the kind of yields that we are generating in these, specifically in terms of business loans what is the security cover that we have and what is the kind of credit cost we are projecting in this segment?

P.N. Vasudevan: See for business loans typically it is factor of many aspects. Suppose if a FTB customer, the credit cost is likely to be higher, the risk is definitely higher. If the customer has other loans and repayments track record obviously the comfort is higher, so you expect credit cost to be lower, so your lending rate will be lower to such customers. Second thing is that, customers are also bracketed in terms of assessed income versus declared income, so if a person had declared his income properly in terms of his IT returns and balance sheets and bank statement, VAT returns, IT returns, etc., then obviously it is so much more easier for us to do an assessment of his cash flow and setup a credit limit for him, so our cost of operation and setting up a credit limit is much lower in his case, so our lending rate also will be correspondingly lower. On the other hand, if the customer has got turnover, but we are not able to figure it out from the returns and from the documents then our staff has actually sit in his business place do a lot of surrogate methods of finding out his cash flows and income, so then our cost is higher. And the probability of error is also there. In that case, there is an element of credit risk in that scenario, so we have to factor in all of that in our pricing. So it is a very big combination, so there are different products and different customer segments. The yield in each of that will actually vary from one to the other. But as I had mentioned earlier, the overall yield of all these products put together other than Micro Finance all the non-Micro Finance product is probably about 150 BPS lower than MFI.

Sohail Halai: But that would be true for the new products also well or there would be further lowering of the yields?

P.N. Vasudevan: New products again as I said it depends also the loan size also will vary. For example if somebody is going to take a loan, let us say, of ₹ 50 lakh and he is giving a collateral security of a property and he has got a track record with others institutions. Then assessing the income and cash flow is very easy, then we may probably do it at lower rate of anywhere between 12% and 14%. On the other hand if the size of the loan is lower if the complexity of credit disbursement is higher we will probably, and even though it may be secure, we may still have to do it at 16% to 17%. It can range in those types.

Sohail Halai: What percentage of the business loan would be collateralized and how do we see this proportion going forward in the next may one to one and a half years or two years?

P.N. Vasudevan: We provide unsecured business loan. There of course the norms are very tight because it is going to be unsecured. So that is given only to people who have a very strong track record for further borrowings and repayments and high credit scores and cash flows and VAT returns and everything being very fair, etc. So on an ongoing basis all of these businesses are expected to grow, but on a portfolio wide basis the unsecured business loan, I do not know it may not really cross may be 5% of the overall portfolio.

Sohail Halai: Sir secondly on the liability side if I look at the retail term deposit, which is now 22% of the term deposits, this number in the last quarter presentation was around 35%, so actually we are seeing a dip in terms of retail term deposits in this quarter. What could be the reason behind this?

Sanjeev Srivastava: Sanjeev here. So basically if you look at it, our interest rate for 10 lakhs plus is 6.5%. Last year when we were raising money in the retail term deposit space we were offering 8.75% to 8.8% kind of interest. In today's scenario's interest rate on FD with upfront reduction of TDS, the 6.5% of savings is a much better option. So basically, a lot of customers are keeping the money in the savings account and not in retail term deposit.

Sohail Halai: Sir when did we change the rate because the decline happened this quarter only?

Sanjeev Srivastava: Also, at this moment, the entire focus is more on CASA, so while retail FD is being driven no doubt, but the first focus is on CASA. Because to the customers our interest rate in retail TD is close to 7.25% odd with upfront deduction of TDS, so branches are basically communicating the same to the customer and the customers are also basically taking higher variant of savings account with a better interest rate.

Sohail Halai: Sir what will be your cost of SA deposit right now on the stock basis?

P.N. Vasudevan: Current account contributes around 24%.

Sohail Halai: No I mean the interest cost on the SA deposits on the book that it is sitting in right now?

Sridharan N: It will be about 6.25% odd, between 6.25% and 6.5%.

P.N. Vasudevan: 6% at some levels and 6.5% at some levels.

Sanjeev Srivastava: For 10 lakh plus it is 6.5%, but below is 6% so average would be about 6.25%.

Sohail Halai: Sir this is the last question basically this relates to the press release of transfer of shares from Mr. Vasudevan to his mother, so can we know what were the regulation that actually required this?

P.N. Vasudevan: There is a section, I forget the section number, I think it is some section 10/1B-E something like that of RBI Act 1949, which says that a person who is appointed as a MD of a bank shall not have an investment in any other company other than the bank of a value exceeding ₹ 5 lakh.

Sohail Halai: Thanks. That is very helpful. Thanks a lot.

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

S. Bhaskar: Thank you. On behalf of the management team, I thank all the participants to take out their time and join the call and I will look forward for continued participation in the future. Thank 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. You may now disconnect your lines.