"Equitas Holdings Limited Q1 FY-20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Equitas Holdings Limited Q1 FY20 Earnings Conference Call.

We have with us today Mr. S. Bhaskar – Executive Director & CEO – Equitas Holdings Limited; Mr. P. N. Vasudevan – MD & CEO – Equitas Small Finance Bank Limited; Mr. Sridharan N. – CFO, Equitas Small Finance Bank; Ms. Srimathy Raghunathan – CFO, Equitas Holdings Limited; Mr. H. K. N. Raghavan – Senior President-Inclusive Banking & Vehicle Finance; Mr. Sanjeev Srivastava – President & Country Head, Branch Banking - Liabilities, Product and Wealth; Mr. Bhadresh Pathak – President – SME Banking; Mr. Ram Subramanian – Head-Corporate Banking; Mr. Alok Gupta – Chief Risk Officer; Mr. Natarajan M. – EVP-Treasury; and Mr. Dheeraj M. – Head-Strategy & IR.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone 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.

S. Bhaskar: Good afternoon, everyone. Welcome to the Equitas Holdings Limited Q1 FY20 Earnings Call. We generally had a good quarter. Total advances as of June 2019 stood at Rs. 12,355 crores, registering a growth rate of 38% year-over-year. PAT for the quarter was at Rs. 61.92 crores as against Rs. 35.38 crores in Q1 FY19, registering a growth of 75%. The return ratios for the quarter were at 1.5% ROA and ROE of 9.79%.

This quarter, we have also uploaded an Excel sheet in our website along with the earnings presentation to help you to make analysis. Hope you find it useful.

I would like to invite P.N. Vasudevan to update you on the scheme of arrangement before taking you through the performance of the bank in detail.

P N Vasudevan: Thank you, Bhaskar. Good afternoon to all of you, and thank you for dialling into our call. Firstly to update all of you on the listing process for the bank. As you are aware, our Board has approved a Scheme of Arrangement instead of an IPO to list the bank shares as we feel the IPO is not really in the best interest for our existing holding company shareholders. Under this scheme, the bank will be capitalizing its free reserves and issuing bonus shares to the shareholders of the holding company in proportion to their shareholding in the holding company. Through this scheme, 47% of the bank shares would be diluted in favour of the shareholders, and the holding company will retain the remaining 53% of the bank shares.

We have submitted our scheme for approval to the stock exchanges in the month of February, and through them, the scheme has to be forwarded to SEBI for its approval.

We are in touch with SEBI and hoping to get the same shortly. It is a 5, 6 months process post SEBI approval to get NCLT approval, including shareholder creditor approval and complete the listing. Accordingly, we are in touch with RBI and have sought a suitable extension for the listing.

Now coming to our quarter one performance. We had a decent quarter backed by healthy growth in advances, stable operating expense and continued traction in new products like the new CV and the working capital loans that we had launched recently. The non-microfinance loan disbursement grew by 17% while microfinance was down by 13% over the previous year same quarter. The microfinance disbursement was lower principally because of elections during April/May, and we slowed down the disbursement during this period because of sensitivities involved especially in Tamil Nadu.

Inclusive banking branches have started cross-selling recurring deposits to MFI customers, and we now have more than 1 lakh recurring deposit accounts from MFI customers. This is now being rolled out to the rest of the branches, which should be completed by this quarter.

Additionally, we have started adding clients for only savings into the existing MFI centres. This really means that when we are conducting our centre meeting of let us say 10 or 12 people or 15 people, in that neighborhood if anybody wants to only join our recurring deposit scheme who has not to borrowed from us but joining just for the recurring deposit scheme, they can be added to the centre and our field officer can collect that RD amount from those customers along with the remaining borrowers. This we expect will help us increase the center size from the current 13 to around 18 to 20, and these people could potentially be customers for microfinance in times to come.

In small business loans, we are looking to scale up North and have now recruited a strong team in Q1. Our small business loans in South as well as Maharashtra continues to do well and with the North getting activated, we expect the meaningful traction to kind of come from North from the September month onwards. This will also help to bring down our Tamil Nadu concentration, which is close to 70% today.

Top-up loans to vintage customers in this segment now contributes nearly 11% of monthly disbursement and there is a lot of analytics work going on to try and improve that further.

In the vehicle finance, coming to the new LCV, our market share is currently 2.5%, and we have a good dealership partnership with about 125 dealers across the country. We also have a preferred financial arrangement signed in with all the 3 major manufacturers.

Our objective is to take up this market share to about 10% over a 3-year period. Coming to used commercial vehicle financing. Over the past few years, contribution from the used commercial vehicle dealers, that is people who deal in used commercial vehicles, has been increasing steadily.

Today, almost 30% of our UCV business is sourced through our UCV dealers, and we are kind of increasing our relationship with these dealers so that this percentage can go up further. After a quite 2018-19, we are seeing growth picking up in the segment for us, and we expect this segment to contribute maybe about 35%-plus growth for this year.

Our liability franchise is focused on retail CASA and term deposits. In Q1, we grew retail TD by Rs. 619 crores compared to only Rs. 60 crores of quarter one of last year. This had some impact on our CASA also as we saw close to Rs. 180 crores moving from CASA to retail TD during the quarter.

Tab based sourcing of savings account has been launched, and the next 4 months we expect to move most of the savings account opening to Tab across the country. We have launched our SelfeSavings account, which is an online self-service savings account opening program. This was kept suspended for a period of time when Aadhaar e-KYC authentication was not available. For the semi-urban and rural branches in South, we are launching a special savings account called Namma account. Namma means ours, Namma account, and this should help us drive into the deeper mass penetration. The Namma account is the bundled savings account that offers insurance cover along with mutual fund SIPs.

In Q1, we moved from the open architecture in insurance to a single partner, and we hope that this synergy with the single partner will help us improve the productivity of our insurance distribution. On branding, our retail activities for liabilities have increased manifold. We are now doing nearly 1,600 activities across our branch network on a monthly basis, which helps us to reach our brands to about 80,000 potential clients per month, within the neighborhood of the branches. In Chennai, additionally, we did a large ATL campaign by taking up space in prominent hoardings in malls.

To sum up, we would be watching the market even closely and its impact on our portfolio. If we see any stress in our assets at any point in time, we would go cautious on such products.

For the present though, we are comfortable with our collection efficiency and our NPA, and we are still seeing a visibility to deliver the 35% plu growth in advances that we had guided in the last call.

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

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

The first question is from the line of Amit Nanavati from Nomura Securities. Please go ahead.

Amit Nanavati: Just wanted to understand a bit more on the listing thing. So, you have kind of applied long back and still awaiting approval from SEBI. The understanding is that the RBI has given NOC already.

Just wanted to understand, say, your deadline was 4th of September. If by 4th of September, if you do not hear back from SEBI, what would be the plan of action post that? Will you assume it to be a denial of Scheme of Arrangement? Or would you continue to chase it? And in either scenario, how does the RBI also react to it?

P N Vasudevan: Yes. See we had applied in the month of Feb to the stock exchanges because that is the process, and the stock exchanges have to kind of go through the scheme, clear it from their end. They have some queries, so they also will clarify. And post that, they have forwarded it to SEBI. And I mean, SEBI, we are told has also sent it to RBI to seek their clearance. Of course, these are communications between them so we do not have any direct access to that. But we understand that RBI has also given a feedback to SEBI.

So, this is a process. So, it is obviously there are a lot of regulatory bodies involved in this process, and it is been taking its time. We are anyway, as I mentioned in my opening remarks, we are in touch with SEBI and we hope to get the feedback from SEBI very shortly.

As far as the 4th September time line for listing is concerned, obviously we are not in a position to do that at this point in time simply because post SEBI approval, it will still take at least a 5 to 6 months process. I mean, we are from our side, quite ready. So, we have kept all our applications for NCLT ready so the moment we get the SEBI approval, we would be able to file our application to NCLT quite fast. So, we are geared from our side, from our end in terms of doing whatever is required. But even whatever maximum that we tried to push the process, it is a minimum of 5 months to 6 months' time by which the actual listing will get completed.

So, we have been in touch with the RBI, obviously. Right through this entire process, we are in constant touch with RBI, and we have been informing them of the various stages of our application and seeking their permission and that there will be some delay, because September is clearly not possible now. So, we have kept them informed and we have been seeking their approval for extension over this period of time.

So, at this point in time, that is the situation we are in. So, we are just awaiting SEBI's approval. So, there is nothing like a deadline of SEBI approval by September 4. I mean, September 4 and SEBI approval are not really in that sense connected from a deadline perspective. Suppose SEBI approval comes on September 5, we will still hit the NCLT and keep the process going after that.

Amit Nanavati: Sir, I understand the process may take longer, but for clarity to emerge, and since RBI had given you a deadline for listing, till such time or till 4th of September, if you do not have clarity, do you see any chances where RBI says that because you have not got any clarity, assume it to be a denial of that arrangement and go ahead with the alternative option?

P N Vasudevan: I do not think. I mean obviously, we are beginning to surmise, so that is quite difficult to keep surmising. But we have kept the RBI informed. I mean, we have been in close touch with RBI all along.

Moderator: Thank you. The next question is from the line of Praful Kumar from Pinpoint Asset Management. Please go ahead.

Praful Kumar: Sir, continuing with this question. Do you need an RBI approval for an extension? And have you applied to RBI approval for this?

P N Vasudevan: Yes. We have applied to RBI for an extension. So, obviously, we have not really been able to ask them for an extension up to a particular date or something, because once the SEBI approval comes, we will have a clarity in terms of the likely date for the listing.

So, we are generally given a letter indicating that there are certain delays in the approvals, and so we have kept them informed and sought an extension. But the actual extension in terms of the time line will go once the SEBI approval comes in.

Praful Kumar: Okay. So, anything on disbursement? MFI was low because of elections, but we are also hearing quite heating up in space like West Bengal, Orissa. You are not present there. But generally on the ground, are you hearing anything on this over lending or heating up of MFI space or just some inputs on that?

HKN Raghavan: Yes, this is Raghavan here. Certainly if you look at microfinance, 1 year, 1.5 year back if you look at it, the rejection rates were roughly around 35% to 40%. And now the rejection rates have gone up to 65%, and broadly because the number of institutions from whom the client has taken, but not much in terms of the overleveraging in terms of total amount outstanding.

And in terms of West Bengal and the other states, we are not there, so hence we will not be able to tell about or comment upon that. But in other states also, if look at it, its rejection rates have gone up. But that does not mean that we do not have an opportunity because microfinance is one where once you start a center, roughly up to a year, no additional clients are added. And other clients have to wait till they get another center opening. So, the thing is there will be a large number of clients also who are out of this particular loan cycle.

So, there will be an opportunity as to that is where Vasu was mentioning that and we will also have a savings account through which we will be able to add clients to our center. So, that whenever they become eligible, we will be the first lender to them. So, by that, what happens is that we will be able to increase our clients and retain them also because of the RD accounts which they have opened.

Praful Kumar: Sir, given the product mix which is doing well now after many years. In terms of margins, there is some cost pressure clearly and it is growing higher. So, how should we look at margins for this full year? How are you looking at it internally?

P N Vasudevan: See from a NIM perspective, if you compare the entire last year's NIM versus the first quarter NIM, the NIM is down to about 10 basis points. But if you look at the operating cost to average assets for the entire last year compared to the first quarter, the operating cost to average assets come down by 20 basis points.

So, there is a 10 basis points kind of an increase in the NIM, net of operating expenses. So, I think, broadly what I think we have discussed this in the past few calls also, we have a diversified book, and we are consistently increasing our advances on the non-MFI book.

You see our MFI, for example last year, our MFI was at 27% and the first quarter, it is actually come down to 25%. It is come down by 2%, which is taken up by other products. Obviously, the MFI is a higher-yielding loan and the other products are lower-yielding loans. To that extent, you will see our yield coming down. But the operating expense and the risk involved in the products, of course, are different. And so if you kind of adjust the yield before the operating cost and the risk, finally what you are left with will be more or less the same. But if you just look at the yield then naturally there will be a curve down, but the operating cost also curves down, kind of proportionately.

So, we see kind of a stable margin if you kind of net the operating cost and the risk, then I think we are seeing a fairly stable margin.

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

Deepak Poddar: My question relates to your listing process. Now do you think, basically, if we are not able to meet this 4 September guideline, any kind of penalty that RBI can impose on us? That is number one. And how confidently we are that the scheme that we have proposed to SEBI will get cleared as it is?

P N Vasudevan: On your first question. Obviously, we will not be in a position to answer that and we are obviously hoping that there will be no such a thing because we have kept RBI informed consistently, we have taken a lot of steps from our side, and so we have not left any stone unturned from our end. So, we really hope that there should be nothing on the first point as what you are saying.

In terms of the second point. In terms of how confident are we that the scheme will get approved. Basically if you look at our scheme, there is this is one, it is in line with the Company's Act Provisions; second thing is that there is no minority shareholder interest which is being infringed; third is that there is nothing like a promoter who is trying to gain or benefit from the scheme. So, if you look at it from any perspective, obviously, I mean, there is nobody who is impacted. If at all, there is only a benefit for the shareholders and there is no one who is really impacted negatively by the scheme. I mean, so just from that perspective, one assumes that there should be no reason for the scheme not to get approved.

Deepak Poddar: And my second question is on your cost to income I think in the last call, you mentioned about 15% growth in your OPEX. So, you still maintain that? Because I think first quarter was your cost structure at 277 was a little on the higher side, so you still maintained 15% growth in your OPEX?

P N Vasudevan: Yes. First quarter, our OPEX went up by 15%. But if you see also that the salary cost really goes up in the month of April, and then obviously, it remains constant through the rest of the year. And so that could be one of the reasons. And we still believe that our OPEX growth for the year should be in the same range. We really do not expect it because our branch expansion, as you know, we are not looking at a very large expansion.

And so we really do not expect our OPEX to really go much beyond that. So, that 15% guidance we gave in the last call, we are still as of now sticking to that.

Deepak Poddar: And what is the view on 55% cost-to-income? Like in how many years we would want to achieve that?

P N Vasudevan: That we are not going to give a guidance on that, but you can see that it was at the peak of 83% about a year plus back, and it is down to 70% and now down to 68%. So, obviously we are leveraging, we have done our investments. We previously have done a large amount of investment: 375 liability branches, an entire investment in our IT infrastructure and a significantly large number of liability team that we have recruited, nearly 3,500.

So, we have done our investments and it is now the payback period. And that payback period we are seeing now. We are really seeing the payback period. We are seeing the cost getting leveraged. We are seeing the margins and the ROAs coming in. So, obviously, all that is falling in place and the trend is very clearly showing that the leveraging of the investment has started happening a couple of 3, 4 quarters back.

So, we really hope and expect that this trend should continue. And from an expansion perspective, as I mentioned in the last call also, for this current year, we are looking at only about 40 branch expansion, which is 20 branch for liability and 20 branch for assets where we still believe in the markets where exist, there is enough potential both for liability and for assets to be able to sustain our required growth.

Deepak Poddar: No, the reason I was asking earlier you were kind of, in maybe 3 years is what you might be targeting 55% kind of a cost to income?

P N Vasudevan: So, I do not know whether I would have given you a guidance because I normally do not do that, and I would not do that. Three-year guidance is not what we have given so far. So, but you can safely look at our trend and I am sure you should be able to predict it.

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

K. Sivakumar: Do you actually see a pickup in disbursements going forward? Because on a on a sequential basis, there had been a de-growth in disbursements. So, what is the outlook for the coming quarters?

HKN Raghavan: This is Raghavan here. Generally, if you look at the disbursement, except microfinance where we had a de-growth in disbursement, and subsequently Q1 is always kind of a muted kind of disbursement and plus elections also kind of contributed to it. But where has the third part is that fortunately there was no slowdown in terms of inquiries.

If you look at the logins, they are quite good. So, little bit of credit norms were tightened because overall, if you look at the market situation, it is important that we be a bit prudent in terms of our lending and also slightly the credit norms were also tightened because of which the approval rates had come down in Q1.

And we will probably in Q2, Q3 we will definitely look at further growth in it, and I am sure the coming quarters the disbursement will definitely be better.

K. Sivakumar: Okay. Any number, sir, that you can share? What is the yearly disbursement rate you are working with?

HKN Raghavan: That is a bit difficult to share because I do not think I can give a quarter-wise guidance on that. But I can certainly promise you we have put things in place wherein there will be definitely a better traction in terms of disbursements.

K. Sivakumar: Okay. Coming to the asset quality front. We see that the fresh new business have slightly spiked from last quarter and even the upgrades were on the lower side. Any comments you want to share on the asset quality front? Are there any concerns with any segments that you are witnessing currently?

HKN Raghavan: By and large, if look at last quarter, it was 2.85, and then now we are at 2.74. So, 10 bps actually lesser than compared to the last quarter. The collections will be slightly tapered lower than the quarter 4. And this is a trend. And currently, the quarter 1 is in line with that trend. And to get into details as to which sector, which segment is actually looking at kind of a stress, currently we do not see any stress there. One, because the loans that we are disbursing, 90% of them are the first time borrowers the segment where generally the penetration levels are low and there is no other financial institutions that will be able to fund these clients.

So, hence, we do not feel that substantially there could be any deterioration in terms of the asset quality. And quarter 2, generally the recoveries are a lot better, and we hope to see some improvement. Nevertheless, we are keeping close watch on the portfolio quality because generally the market perception is that, the market is under stress and all. And our clients are not except the vehicle finance client, the rest of the clients are not greatly integrated into the larger economy, so that is the kind of understanding that we have as far this client is concerned.

And despite the market slowdown, vehicle finance we have not seen really some kind of a portfolio quality dip. It is in line with whatever we had last year.

K. Sivakumar: Okay. And sir, would you look to increase your provision coverage ratio from the current levels of closer to 45%?

P N Vasudevan: Yes. So, currently, it is around 44%, 45%. It will go up, I am sure, over a period of time. But we do not have any particular time frame and target in mind. It is more than what is statutorily required. Yes, but it will keep going up, but we do not really have a time frame and a particular number in mind at this point in time.

K. Sivakumar: Right. Sir and we also noticed that we have added employees in this current quarter, about 650-odd employees. What are the segments where you added these employees?

P N Vasudevan: So, these are largely the sales and collection teams on the ground. So, as I said, branch expansion is not much space is not really the new branch staff. It is significantly people we added on the sales and collection at the branches.

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

Jehan Bhadha: My first question is on the disbursement growth in small business loans. We have seen that even there, there is some moderation. The growth has come down to 20%. So, was this segment also impacted due to election or any particular reason?

HKN Raghavan: If you recall the opening remarks, it was shown that 70% of our business of retail still comes from Tamil Nadu, right, and then our major portion of small business loans still resides in Tamil Nadu, and it will have an impact as far as the disbursements are concerned. And also, if you look at it, the SROs and all were also quite busy here because we do follow our MOTD post-disbursement process.

And the inflows of inquiry was there, so definitely it was there. And it is a cross-sell for micro-finance. So, in this segment, we do not see that the growth is an issue. It is a question of how credit quality we would like to look at it. So, we are also as I said, we are also looking closely on the credit quality even in the segment.

And again, in terms of inflow of inquiries, there is no dearth of inflow of inquiries.

Jehan Bhadha: Okay. Second question is on the vehicle financing segment. So, over there, are we continuing our focus on both used and new vehicles? Or has it shifted to new vehicles? And what is the strategy?

HKN Raghavan: Yes. Very clearly, if you look at it, the market, which is there, the used commercial vehicle market is definitely 3 to 4x bigger than the new commercial vehicle. And our strength definitely lies in the used commercial vehicle. We will continue to grow there.

However, it is important that, especially the new commercial vehicle, which we are predominantly targeting the LCV and SCV segment which is again many of our clients who would like to move on to the new vehicle segment will come internally also.

And thereby, what we expect is that currently it is around 30% new commercial vehicle and 70% is used commercial vehicle. And market, in terms of new commercial vehicle, we will also see that the inventories have piled up. And there is lot of kind of a concern as far as the optics are concerned.

We are pretty cautious as far as the new commercial vehicle is concerned. We are also operating only in the segment, which is LCV and UCV. And UCV will definitely continue to grow, and then we will be cautious as far as new commercial vehicle is concerned. And at this juncture to give in the changing market scenario as to what should be our kind of a mix between new and used commercial vehicle would be slightly difficult. We will have to see how the market unfolds.

Moderator: Thank you. The next question is from the line of Hiten Jain from Invesco Asset Management. Please go ahead.

Hiten Jain: So, as I read from your presentation, the unsecured business loans, this line it seems we are discontinuing. My understanding was that this was a new line of product for us. And what is the reason that we are discontinuing?

And similar question, even for loan against gold, so that product is also it seems is degrowing. So, what is the rationale for this?

P N Vasudevan: See these unsecured loans, yes, we have stopped it about few quarters back. We started it only about maybe 2.5 years back or so. But when we started it, the market was looking kind of decent. The kind of proposals we were getting is people who used to have maybe 2 unsecured loans or 3 unsecured loans. So, the leveraging of the customer was looking quite normal and quite acceptable, and so we started it off. I think, we launched business only about maybe 2.5 years or maybe 3 years back.

But within a year, when the proposals that we were receiving, we were able to see a distinct change and in terms of the leveraging of these borrowers. And we were quite taken by surprise that some of those files, which was coming in, was having as many as 6, 7, 8 kind of loans, unsecured loans from different sources. And so, we felt that, that was kind of taking a turn for the worse. And so, we thought that we do not want to be in a business where the borrower apparently are trying to get too overleveraged. So, that is where we took a call, maybe about a year back, that we did not really want to pursue this line of business further. So, we kind of stopped.

And as far as gold loan is concerned, it is not like it we have started or stopped. It is just a small product that we have launched in a few branches. We have not really put a lot of focus on that, but I will let Sanjeev talk on that.

Sanjeev Srivastava: This is Sanjeev. So, basically this gold loan we are trying to drive from the liability branches, especially from South network. So, we have recently hired a product head, and the person who is going to support it.

In between, we have also worked a lot on our products and benchmarking it against the competition. So, we are ready now by in another 15 days' time, so we will be relaunching the whole product across South branches. So, you will see some traction from the next quarter onwards on it.

Hiten Jain: Okay. And my other question was that this quarter, the asset fee income is up 7% year-on-year for an AUM growth of 38%. So, how should we look at this fee income in terms of evolution throughout the year?

And also, a question linked to this is that last 3 quarters, we have seen that our profit is stuck in this range of Rs. 60 crores to Rs. 70 crores. So, there is some time there is one time of other income or other premium paid by due to PSLC. So, when do we decisively break out of this band? And how should we look at that going forward?

P N Vasudevan: See the fee income, asset fee income is basically the processing fees. And while there is a 38% growth in advances, but there was a 5% growth in disbursement over the previous year first quarter. So, obviously, that is why the fee income has gone up by 7%.

In terms of the second question, second question you are asking that Rs. 60 crores to Rs. 70 crores, when we will break out of that band and things like that. See, I think as the advances book grows and our expenses remain under control, obviously the PAT should keep moving up. So, I think it is just a question of time as the advances keeps growing. Our OPEX is quite under control as you have seen and advances are also growing well. So, I think it is a matter of time that it should keep going up in line with that.

Hiten Jain: Sure. And if you could help me with the collection efficiency exactly one year back, basically 1Q '19. So, in your presentation, you have given over the last 3 months. If you can also give it exactly a year back collection efficiency numbers?

Dheeraj Mohan: We do not have that information right now for a year back, but we will try to give it after this call. Or in the next presentation, we will try to give you a year-on-year comparison.

Moderator: Thank you. The next question is from the line of Manav Shah from Arja Partners. Please go ahead.

Manav Shah: I have one question regarding the NPAs. Sequentially, the NPAs have gone up. So, can you give some outlook on it?

HKN Raghavan: As I responded to the previous question also, first quarter has always been slightly higher than the Q4. Always, Q4 has been always a place where the NPAs drastically come down. And Q1, as I also telling, if you look at 2.75 was in Q1. And then sequentially, if you look at last year, similar time it was at about 2.85. So, actually, it is 10 bps lesser than the year-on-year number that we are talking about.

And as the quarter goes on, the collection efficiency improves, and then the NPAs will definitely be better. In terms of collection efficiency also would go up, and we will see definitely improving the NPAs.

Moderator: Thank you. The next question is from the line of Gautam Jain from GCJ Financial Limited. Please go ahead.

Gautam Jain: Sir, my question pertains to PSLC income. So, do you think you will have some PSLC income for the year going forward?

P N Vasudevan: We are actually not wanting you guys to assume any PSLC income, so we will take that only as it comes. So, we did not do any PSLC sale in the first quarter, and we are unlikely to do anything in the second quarter either. So, we will watch our own PSL provision, and maybe the third quarter, we will see whether we have any surplus to sell. But it is not something that we would want to budget.

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

Nidhesh Jain: So, firstly, you mentioned that you have tightened the lending norms slightly. So, in any particular product you have done that? And what is the rationale of doing that? Are we seeing any early signs of stress in our portfolio?

H K N Raghavan: It is nothing to do with stress. But generally, what happens is that once there is so much of indications around the market that there is a stress, then naturally your tendency is to see what we can do so that we do not get into a situation like what market is talking about. So, it does not apply to any particular product or something like that.

Generally, we kind of try to be slightly conservative on the credit norms because as you are rightly say, the market is also indicating stress is what we hear. So, we do not want to take chances, so that is the reason why we have actually kind of tightened the lending norms.

Nidhesh Jain: Secondly, on the cost of deposits, we have seen quite a sharp increase in this quarter. And cost of funding, as a result, has also gone up on a sequential basis. So, how do you see the trajectory of cost of funding enhance spread in margins over the next 3, 4 quarters?

M. Natarajan: Typically, in March, the cost of deposit goes up for the industry. And this year, particularly, the liquidity was also tight. So, all the banks witnessed some significant increase in cost of deposits. Our bank was no exception. So, we had to consider what market was demanding.

So, the full impact of that March end deposits was felt in this quarter. But subsequently, in April, we were in a position to significantly reduce the cost of deposits, the benefit of which will be visible over the rest of quarters. As we see it, even RBI is insisting on transmission of rates. And where State Bank being the leader here has also reduced the cost of deposits. So, eventually, it should result in reduction cost of deposits for the entire industry, and we hope we should also be beneficiaries.

Nidhesh Jain: And hence the impact on spreads, lending spreads, which has declined 20 basis point on a sequential basis so we should expect similar sort of spreads?

P N Vasudevan: As I mentioned earlier, our spread of 20 basis points, 10-basis point's reduction, if you see, between last full year's NIM versus first quarter NIM is a 10-basis points reduction vis-à-vis a 20 basis points reduction in operating cost averages it. So, I think it would always combine these two and look at it.

Nidhesh Jain: So, on a net basis, we still expect accretion to our operating profit? NIM reduction will be lower than?

P N Vasudevan: Yes. Yes, we expect that, definitely.

Nidhesh Jain: And sir lastly, in the small business loans, we are seeing increase in ticket size quarter-on-quarter. So, is there any change in the target segment that we are targeting because the target ticket size has increased every quarter quite materially?

HKN Raghavan: See, what happened was in 2012-13, when we started the small ticket business loan, it was basically for the microfinance clients cross-sell to the microfinance clients where we found that the ability of this segment to consumer loan more than 5 lakhs was not possible. So, that is where we started.

So, over a period of time, we have established certain kind of ability to assess the clients who do not have a formal income evidence. So, or if we find that there are also a lot of opportunity. Above 5 lakhs customers also, we find that within the catchment area where we are.

So, we started doing this, started this above Rs. 5 lakhs tickets as a business loan in 2014. And that is where we started to grow, and then it is a kind of an extension of our ability to assess these clients. So, that is how the ticket sizes have gone up. And in 2015 onwards, we started also above 10 lakhs ticket sizes business loans purely based on the business assessment. And that has also got a good traction in the last 2 years.

Nidhesh Jain: And then lastly, on the unsecured business loan, if I look at the GNPA in absolute amount, that has been increasing on a sequential basis. So, do we expect it to increase? I understand in terms of percentage, it will increase because we are running down the book. But in terms of absolute amount also, it is going up. So, what is the credit cost that we expect in that book? And do we expect it to further increase from here?

Bhadresh Pathak: In case of unsecured business loans, yes, there would be a slight increase going forward because still we have a substantial portfolio of about Rs. 291 crores left with us. And there is a DPD situation in that portfolio, so we expect something to go up.

Now how much it will go up, it is only what I can assure you is that we are taking all our efforts to recover the accounts from the NPA status. So, we have filed all the various different types of legal cases on the borrowers, from arbitration, to Section 138 and so on. And we are now in a phase where the results would come out of the legal effort that we have undertaken. So, we expect some kind of recovery also from the NPA pool.

So, net-net, still something would go up, that much I can tell. Now how much it is going to go up, I may not be able to tell. But we do have some kind of an estimate, but we are in full control of the situation as of now.

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

Manish Ostwal: Yes. Sir, my question on the listing of Equitas SFB. You said that it will take 4 to 5 months to complete the process of listing. Sir, the only question I have is I mean, in case of IPO listing, what could be the equity dilution at the SFB level, sir?

P N Vasudevan: But we are not doing any IPO.

Manish Ostwal: Okay. So, I mean?

P N Vasudevan: Under the scheme of arrangement, under the scheme, the bank would be capitalizing its free reserves and issuing bonus shares to shareholders of the holding company. And through this process, 47% of the bank shares would get diluted in favor of the shareholders and the holding company will retain the remaining 53%.

Manish Ostwal: So, we are very confident to receive the approval for the same, right sir?

P N Vasudevan: I mean I do not see any reason why they should not approve it.

Moderator: Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: I have a few questions. One, I wanted to know about the affordable housing size of the business, how you would like to take it through next 2 or 3 years?

And my second and last question is regarding the incentive, what you give to the branch managers to get you CASA and term deposit. So, how does the incentive system works?

P N Vasudevan: So, on the housing finance, affordable housing finance, I think we have mentioned in some earlier calls also that this year we wanted to put down some special focus on that.

But until last year, we were doing that, but without any special focus because basically, it was spread out at more 400 locations. And we have a large customer base. So, anyway, we keep getting some inquiries, which gets converted. So, we have built up a book of nearly about 500-odd crores on housing finance at this point in time.

But this year, as we mentioned, I think, maybe in the last call also, this year we have put a special focus on that. We have identified, I think about 40, 50 branches, which are potential affordable housing kind of markets, which are really the Tier 2 to Tier 5 town, so to say.

And so we are putting some special focus on those branches. We have some of the sales staff that we have recruited are really for the housing finance in these branches. And so we are wanting to see what can be done in terms of pushing up that product. So, that is something that we will be focusing on this year.

Sanjeev Srivastava: Yes. So, I was saying that for the branch managers, we have put a bonus system. So, we have a yearly appraisal system.

And from this financial year, we have started a quarterly appraisal system, where every branch manager is assessed basis his performance. And we give them between rating 1 to 5. Depending upon the rating, which is done by his appraiser, which is a next-level officer, and the reviewer, which is the second-level officer, we appraise the rating and based on that, we give them bonus.

As far as incentive is concerned, that is being given to the sales manager because fleet on the street and the relationship managers who are there in the branches. So, they get the monthly incentive.

Moderator: Hello? Sir, the line for the current participant is disconnected. We move to the next question, which is from the line of Anirban Sarkar from Principal Mutual Fund.

Anirban Sarkar: One question that I have. I believe the regulation was to bring down the shareholding of the Holdco to 40%. And by your scheme of arrangement, it is looking to come down to 53%. So, are we looking to do it in two phases or how is it supposed to work?

P N Vasudevan: Yes. So, the free reserves the quantum of free reserves in the bank at this point in time, when we capitalize it, it translates to a 47% dilution. And if it was more and it was possible to dilute, then that is actually, we would have done that. But it is not available, and it is only up to 47%. That is why it is 47% we arrived at. We still have to dilute another 13%, but that is within the next 2 years we have to do that.

So, we will take it as it comes in the sense that we could always look at one more similar kind of a scheme, maybe two years down the line, which would help us dilute it by 13% or maybe something else may come up, which may be better or more useful or more beneficial. So, that is something we will have to look at over the next two years.

Anirban Sarkar: Sure. And sir, one more question. When I look at your product-wise yield, I see that your microfinance yields are at 23%, and this looks a little higher compared to some other competitors. So, how confident are we that we will be able to maintain these yields? Do we look at any kind of pricing pressure there? Or are we looking to reduce these yields going ahead? What is your thought on that?

HKN Raghavan: As of now, there is no pressure in terms of reducing the yields. It is not that the business today is under pressure because of the interest rates or yields or something like that.

And there is enough opportunity there, and once we start moving ahead and then see how the things unfold, then we will take a call. As of now, I do not see any issues in terms of reduction on the yields.

With every individual company, it depends what are their composition and how they work cost of funds. The yields are based on certain composition of various costs, so it could be different for different organizations. So, it is not really comparable.

Moderator: Thank you. We take the next question, which is from the line of Hatim Broachwala from Union Asset Management. Please go ahead.

Hatim Broachwala: My question is regarding the cash balance, which we have on the balance sheet, which has grown by 43% on a QoQ basis versus only 4% growth in loans. Sir, if you can explain me why such a sharp growth in cash balance for the June quarter?

M. Natarajan: See, we have to maintain the sufficient reserves for LCR, also towards the fag-end of the quarter, we had availed refinance. So, temporarily, we have parked them in short-term funds, overnight funds. Over a period of time, even as we talk now, that figure has come down significantly. So, that is a typical quarter-end phenomenon.

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

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

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