"Equitas Holdings Limited Q2 FY'20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Equitas Holdings Limited Q2 FY'20 Earnings Conference Call. Mr. S. Bhaskar has retired as ED and CEO from Equitas Holdings Limited w.e.f. October 21, 2019 and Mr. John Alex has been appointed in his place as ED and CEO in the Board meeting held on November 8, 2019. Along with Mr. John Alex, we have with us Mr. P.N. Vasudevan – M.D and 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 and Vehicle Finance; Mr. Ramasubramanian -- Head Corporate Banking; Mr. Alok Gupta -- Chief Risk Officer; Mr. Natarajan M -- EVP, Treasury; Mr. Dheeraj M – Head, Strategy and IR. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. John Alex. Thank you, and over to you, sir.

John Alex: Good afternoon, everyone. Welcome to the Equitas Holdings Limited Second Quarter of '19-20 Earning Call. As a quick introduction to myself, I have been a banker all my life. I worked with Indian Overseas Bank for 27-years before joining Equitas. I have been associated with Equitas from 2008 and conceptualized and set up the team for social initiatives. As you are aware, our social initiatives focuses on large spectrum of requirements in the field of health, education, skill development, food security and placement for unemployed youth among the low income households.

Now moving on to the Half Year Results for Equitas Holdings Limited, our PAT for the first half year was at Rs.112 crores as against Rs.79 crores in the first half of 2019. Return ratios for first half, ROA at 1.35% and ROE at 8.97%.

Before I request Mr. P.N. Vasudevan to give a commentary on the bank's performance, I request Mr. Dheeraj Mohan to highlight certain changes made to the 'Earnings Presentation'.

Dheeraj Mohan: Thanks, Alex. Good afternoon, everyone. As you have noticed, there are certain changes to this quarter's presentation as we are in the process of getting the bank share listed. In view of the above, the following slides which used to be part of the earlier presentation are not part of this Q2 FY'20 PPT.

Firstly, the segment wise details on our advances, which we used to give which was number of live loans, average ticket size at disbursement and portfolio, the rate of interest and GNPA; secondly, collection efficiencies across various products, number of customers and their average balances especially for CASA and TD, the daily average cost of deposit and cost of funds, debit card spend details and the holdco consolidated financials under IGAAP. So, these have not been included and the following are the changes we have made to the presentation.

The unsecured business loan which was previously part of the MSE finance is now shown in the other section both for AUM and disbursement. All of the ESFB standalone numbers in the PPT are on IGAAP basis and all the Equitas Holdings Limited consolidated numbers in the presentation are on IndAS basis.

Lastly, as per the regulatory framework, we are not allowed to make any forward-looking statements or provide guidance, so we really request all the participants to refrain from asking such during this call. We would however be very happy to talk to you about industry as a whole and any forward-looking comments we make, would pertain to the industry as a whole and not our bank.

Now not to take more time, I would like to invite Vasu to update you on the bank's performance.

P.N. Vasudevan: Thank you, Dheeraj. Good afternoon to all of you and thank you for dialing into our call. Since most of the financial performance has already been captured in the presentation, I would like to give perspective of each of our business lines: The Small Business Loans which contributes the largest part of our portfolio has seen a growth of about 45%. Within the segment, we see strong traction in the Rs.5 lakhs to Rs.10 lakhs ticket size. Our yields continue to remain stable despite new players entering into the small ticket LAP. Over the past six months, we have strengthened the sales and collection team in our existing branches.

Our second largest portfolio is Vehicle Finance, of which 73% is used commercial vehicles finance and the remaining are the new commercial vehicle finance. We have seen growth in this book compared to the previous quarter. The growth has been driven by strengthening the sales team and improving sales productivity in both the new and the used CV. The new CV loans continue to see strong growth. We operate in the new small commercial vehicles and in the light commercial vehicles market. We currently do not finance new heavy commercial vehicles. New CV financing is offered in around 100 branches and we have recently appointed a business head to drive this vertical. As in the last year, the seasonal delinquency trend was seen in the CV portfolio this quarter too.

Moving to Micro Finance, our disbursements improved over the previous quarter. The asset quality continues to remain stable and we have added more sales officers in our existing branches and seen productivity improve as we have started to add clients to the existing centers. The team has also successfully been able to offer recurring deposit to our members. We now have more than Rs.2 lakh new micro finance borrowers who have availed RD scheme with us. For the existing microfinance borrowers, we have just rolled out a pilot to enable them to avail this RD scheme.

The smaller asset businesses like the corporate and the MSE finance continue to see growth. Corporate loan book grew 63% YoY to Rs.693 crores, primarily led by loans to NBFCs mainly MFIs. MSE Finance Loans being offered through around 200 existing branches, grew by around Rs.155 crores QoQ. The working capital book is now around Rs.435 crores.

The bank continues to invest in technology to aid business growth. We have recently launched an SMS-based real-time credit score download by the field team. This has helped improve the TAT at the field level.

On the liability side, our instant account opening savings account through tab has gained momentum.

Apart from this, the bank has invested in outdoor advertising in Tamil Nadu and a few other locations to promote our deposit products and brand building.

On the liabilities, we continue to focus on retail term deposits. Our retail RDs as per RBI definition has touched Rs.2,600 crores and overall deposit including CDs have crossed Rs.10,000 crores.

Cost of funds on a quarterly average basis, I repeat, cost of funds on a quarterly average basis, was at 8.49% compared to 8.23% on daily average basis during the previous quarter. There has been a change in the way the calculation is done from the daily to quarterly in line with the requirements that we will be showing in the proposed IPO documents.

Lastly, the bank has returned down deferred tax asset on account of change in tax regime. This is approximately around Rs.24 crores. This has had an impact on the bank's profit after tax.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: Just wanted to get a sense on the vehicle finance side. In terms of the kind of risk we are underwriting who are we typically competing with and what yields are we underwriting on this in particular as the bank start to push more on the segment, how do we see ourselves in terms of our competitive differentiation, are we looking to move into riskier segments and up the yield or are we likely to stay within relatively safe segments within VF? The second question is on the micro finance side. Are you seeing a falloff in disbursement wise smaller MFIs because the general liquidity issue is that small and midsize NBFCs are facing, and is this allowing you to basically get more attractive pricing for a given level of risk?

P.N. Vasudevan: So, on the vehicle finance, in 2011 we started with our used commercial vehicle funding, and our used commercial vehicle funding as you know is at the kind of the end in terms of the risk spectrum of vehicle finance, where typically the borrower is really a first-time user, he is most typically a driver who has been driving a commercial vehicle for someone else for a better number of years and now he is wanting to try and convert into an owner of a vehicle. So that is the kind of the highest end risk spectrum, and that is what we started with in 2011, and the yield typically in that book is approximately around 20%-21%, and that kind of gives you certain level of risk-adjusted returns. So that is more or less like we started with the higher risk spectrum. You were saying whether we are tending to a higher risk spectrum in the vehicle portfolio. Frankly speaking, we started at the highest risk end spectrum. Now, we are actually coming down the risk end by trying to get into the what is called the small fleet operators, which is typically people who will own may be anywhere between two to five or two to six vehicles, again taking used vehicle. So, there the risk level comes down. Of course, the yield also would come down to some extent. But the risk level also proportionately should come down. And this was started about four, five years back. Now about one-and-a-half-years or so back, we started our new commercial vehicle financing which is really the new SCVs and the LCVs. These are the typical last mile delivery vehicles, mostly used for intra city or intercity. So that is the one we started. The yield currently in the market will be anywhere around 14%, and typically, at that level gives you a reasonable risk-adjusted return for that particular portfolio. The one we are not into currently as I mentioned in my opening remarks also is the new heavy commercial vehicle. There the yield is generally lower, and at this point in time, we are not in a position to compete at those rates. So, we have not moved into that as of now. I will request Raghavan to take up on the micro finance.

Nagraj Chandrasekar: One aspect that was not covered is who the competition in each of these segments is. Obviously, Shriram Transport is big in this segment. Are they the main competitor? Are there other major competitors? And if you look at Shriram, they over the years put very large networks, built a lot of internal expertise in terms of being able to assess used CV. How confident are we given our relatively short operating history that our processes, procedures, etc., are able to handle the appraisal of what has historically been a pretty difficult class to underwrite well?

P.N. Vasudevan: Yes, you are right, in the used commercial vehicles, of course, the large player is Shriram Transport. In terms of the new LCVs and new SCV financings which I mentioned, if you look at the dealer-wise reports of financials and all that which is available from the market, typically the major competitors there are HDFC Bank, Cholamandalam, IndusInd and Tata Motors Finance, of course, Mahindra Finance, Sundaram Finance. So typically, the old traditional vehicle finance people and a few other banks. What you are asking in terms of our robustness of process for managing the risk on the used CV which is really like the risk of assessing the customer, the risk of assessing the vehicle, etc., these are things which of course you have to build into the system because when you are financing an used vehicle, the valuation of that used vehicle becomes critical. You do have LTV which can typically be in the range of 70%-75%, that is typically the LTV at which used vehicles are funded, but that LTV makes sense only if the valuation is arrived at appropriately. If by mistake you arrive at a wrong valuation then the LTV itself does not have much of a meaning after that. So, there is a certain level of knowledge and expertise that your own staff has to process on that plus not only that, even the customer assessment, you are basically assessing a driver. He does not have much of repayment track record with anyone else. So your ability to assess the driver is based on understanding the profile of the driver, understanding what type of vehicle he has been using, which market he has been covering right now, what type of goods he is moving and the kind of vehicle that he is planning to buy now, how does that kind of match his current profile and knowledge of the transport market. So there is some amount of market intelligence and market knowledge that you need to have to be able to even assess the customer also. So, on both ends, there is a certain level of expertise required. Over maybe the last about eight years since we started, that is something that we have been building, and if you also see our own portfolio over the last maybe a couple of years, we have been having, I would say reasonably steady growth, it has not been kind of skyrocketing, the percentages would kind of bear that out because these are experiences that you build into the system, and the more and more that you have built into the system, that will allow you to kind of scale up faster. So that is something that we have been going through. And after eight years in business, I think we can say that our portfolio quality stands to kind of compare really well with the market rates.

H.K.N. Raghavan: Can you just again for my benefit repeat the question on micro finance?

Nagraj Chandrasekar: Just wanted to see if given the issues with NBFC, especially mid and small size NBFCs are facing on the liability side, are you finding that there is reduced competition in the market which is letting you get better pricing at any given risk level or is getting you better credit quality overall because a lot of the small and mid-size groups that were ramping up aggressively maybe be two, three years ago, cannot do it because they are constrained?

H.K.N. Raghavan: At least I would say that 50%-60% of the good NBFCs which contribute to the business are getting funding, it is not a major problem. And also, if you look at the complete composition of the finance sector today almost 60% are from banks. So absolutely there is no liquidity issue as far as these banks are concerned. The rest, which is the NBFCs which are there, very small NBFCs, which have Rs.200 to 300 to 400 crores of portfolio are finding it difficult. But otherwise funding is I do not see an issue. I would say that there is more number of microfinance institutions operating now. To that extent, what will happen is that it may not impact on the pricing, but I think the productivity levels are likely to get impacted. The center sizes which used to be around about 20 clients per center today for the industry hovers around 10 to 11.

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

Umang Shah: So wanted to seek clarification regarding once the SFB gets listed, then how we plan to reduce the ownership of the holding company in the SFB?

P.N. Vasudevan: So we are currently in the listing process. So we hope to get the bank shares listed shortly. Yes, you are right that there is a second requirement of the RBI guideline for SFBs which is for the promoter to reduce their holding to 40% by the end of the fifth year. As you probably may know, that is an issue which is there in I think 7 out of 10 SFBs. So there are various ways in which that can be done. So, we are exploring the different ways and frankly, I am not in a position to right now tell you exactly what we plan to reduce that because it is a still work-in progress and we shall definitely be kind of making announcements as and when anything keeps getting crystallized. But the standard ways are one is of course you can directly dilute and second, is you can dilute by raising fresh capital and third is you can acquire other companies in the bank and that will help dilute the holding company's shareholding. I mean, there are the three, four standard methods which I am sure all of us are aware of. And for us which will be the most appropriate one or a combination of some of these is things that we are working on and it is work-in progress, and as and when we have something concrete definitely we should be able to announce.

Umang Shah: If I may pull a little bit here, is it possible for us to do the same scheme of arrangement which we had proposed earlier once the SFB gets listed?

P.N. Vasudevan: No, not really, because the reason why SEBI kind of turned down our earlier request was that the issue of shares from the bank to the holding company shareholders was not under a scheme of merger or under a scheme of reconstruction. So, SEBI guideline specifically talk of these two -- Scheme of the Merger and Scheme of Reconstruction. Scheme of Merger is two companies merging. In our case that is not there. The second one is Scheme of Reconstruction. Scheme of Reconstruction really means that some businesses are being bought and sold between two companies and because of that there is a kind of restructuring within those companies. And in consideration of such kind of buying and selling of certain business assets or divisions, shares of some company given to the shareholders by other company. In our case, the holding company does not have any business to kind of divest into the bank. And in return for which the bank could issue shares to the shareholders of the holding company. We do not have such business lines. So even after the bank gets listed, the fundamental position that the holding company is purely an investment company just holding 100% of the bank shares or later on after the listing maybe something less than 100%, that premise remains the same. There is no change in that. So, the scheme like the one we thought of earlier will still be outside these two particular requirements of the SEBI guideline. So, assuming that there is no further change in the regulatory framework, then the scheme may not go through again still. So that may not be on the cards, unless there is a change in the regulatory framework.

Umang Shah: Sir, would like to dig a little deeper on the small business loan portfolio. So, in the small business loan, the Rs.4,341 crores portfolio, what is the composition of GLAP, MLAP and what are the various ticket sizes and yield of those products?

H.K.N. Raghavan: MLAP and Agri which is below Rs.5 lakhs, the yields are about average 23%. And the G-LAP which is Rs.5 lakhs to Rs.10 lakhs and above, which is roughly around 18% and Business Loans yields are between 14% to 16%.

Umang Shah: And what is the ticket size of the business loan?

H.K.N. Raghavan: Secured business loans are above Rs.10 lakhs.

Dheeraj M: If you do not mind you can may be refer to our previous quarter's presentation. So most of the product details are there in that. So, you really have to bear us on the specifics for the next sometime till our listing process gets over. But really there not too much has changed from the previous quarters on these items.

Umang Shah: One last question to Vasu sir is consistently throughout the quarters, we were seeing improvement in the cost-to-income ratio. But this quarter there seems to be some sort of an uptick there. So how do you see this trending going forward, and how do you see the performance of the cost-to-income?

P.N. Vasudevan: We have had an increase in the operating expenses in the first and second quarter principally because of two factors -- One is that we have added nearly about 1,800 staff, principally consisting of sales and collection teams at different branches for our different products. The second reason for increase in the costs is the 10% increment that is given to the staff in the month of April. So these are the two reasons for the increase in the costs. I am really unable to talk about how it will trend into the next two quarters because you know that that is not permitted at this point in time for us. But just to suffice to say that the increase in the number of field staff was basically for some sales and collection recruitment which of course will be an ongoing stuff, and the 10% increase of course you know that it is a yearly phenomenon which happens in the month of April.

Umang Shah: Vasu sir, if you go for the IPO of the SFB, it will require to raise more equity capital. Does that impact your ability to reach higher levels of ROE?

P.N. Vasudevan: Yes, that's true. We actually should be able to manage with our current equity for some time and we have been saying that in the past also that we really do not have to raise capital for the next couple of years also, that is what we have been saying in the past. When we have to sit and decide on the structure of the IPO, these are the things that will be kept in mind.

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

Sivakumar: Sir, the fresh slippages was slightly on the higher side at Rs.115 crores compared to about Rs.79 crores in last quarter. Can you give the breakup as to the segment wise slippages for this quarter? And do you think this is more of an aberration this quarter that we are seeing this higher level of slippages?

Dheeraj Mohan: Siva, Dheeraj here. So unfortunately we cannot give the breakup. So, you really have to pardon us, though we would love to, but just bear with us for some more time. So, we will not take that part of the question. I think the second part Vasu will answer.

P.N. Vasudevan: Actually, we are really in kind of a tight spot because we are now expected to kind of act like an unlisted company and be very chary in terms of sharing data before an IPO of the bank share, and on the other hand, we have the listed holding company which requires us to give certain disclosures, and of course from an investor and analyst point of view, they would like to have lot of information. We are really kind of in a difficult spot, I have to admit. And if you see the last few quarters, we have been giving lot of information and of course been very open in our communication on all the details. But we have so much of restrictions in terms of what we can share. And anything that we share has to be necessarily coming into the DRHP and that needs to be kind of validated evidence, etc., by auditors all and that. It is too many regulations. So I am really afraid that we cannot get too much into details, but just to kind of tell you that please look at the past trends of quarterly movement of both slippages, NPA, etc., and that is the only thing that I could kind of highlight at this point in time and not really be able to say anything about how the next few quarters will look like.

Sivakumar: Has the board put up any timelines within which we should complete this because the longer this kind of moves on we would not be able to get more granular data on the segment wise performance, right?

P.N. Vasudevan: Yes, that is true. Again, I am not supposed to say anything about that is what strictly we have been told. But I can definitely tell you something which is that general process of an IPO in India, you file the DRHP, then it takes approximately 60-days for DRHP to get approved. And from the time, DRHP is approved typically as a listing can be completed both the opening of issue and listing, can be completed based on market conditions, etc., in a matter of anywhere between 30-to-60-days. So from the time you will say let us join IPO to the time you can list typically in India assuming no unforeseen kind of circumstance from a regulatory and other perspective, you can talk of about five, six months. But beyond that in our particular case I am not permitted to say anything beyond that.

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

Aseem Pant: When you said that we have added 1,800 staff, etc., and 10% increment, was that factored into your 15% OPEX guidance for FY'20?

P.N. Vasudevan: Yes, that was part of the plan.

Aseem Pant: Secondly, sir, just one maybe some more color on this CASA growth which has been kind of moderating. So, if you could provide some perspective on that how to think about it -- is it that maybe you need to hire more people in the branches or may be open up new branches or how are you thinking about that?

P.N. Vasudevan: CASA if you see over the last I think five, six quarters, there was some growth initially and then it is kind of flat during the last two quarters. That is the trend we can see. Of course, on YoY basis, there is some growth, but on QoQ basis, there is not much growth. Of course, the CASA is a long-term play, I mean, we do know that, and the bank has spent certain amount of money. I highlighted that in the opening also that we have spent some money in terms of advertisements, putting up some hoardings for the brand recall. Besides that, we have also started a significant level of below the line marketing where across the branch network we conduct lot of activities mainly to popularize the brand of the branch in that particular two, three, four Kms neighborhood. So we do lot of activities at the branch level which is more to popularize and improve the brand recall awareness within very small area of local community of three, four Kms. So, lot of efforts are going into the CASA growth and we have to see how it goes into the future. But beyond that of course I cannot commit on the future, but lot of efforts going on in that direction.

Aseem Pant: Finally, on asset quality, can you give some color on how asset quality in especially the Small Business Loan segment is progressing? I mean it has been remarkably good in the past. Are the trend sustaining or are we seeing some impact of other factors?

P.N. Vasudevan: So again, I am constrained to keep on saying over and over again that I cannot talk about the next few quarters, but I have the liberty of at least taking you down the previous quarter's trends. Our SBL loans have touchwood performed really well in the past. It is about five to six year old products. It has gone through one full cycle. We are into the second cycle. This has been a good product for us right from the beginning. And this has gone through the demonetization period, there was impact of demonetization. We did see certain level of increase in the stress in the portfolio of small business loans post the demonetization. And when GST happened, that also did have some impact in terms of the portfolio quality of small business loans. But it has kind of come back, it has weathered it and come back and has continued to do quite well, and it has shown a lot of resilience. And if you see one of the key reasons for this could be that in the M-LAP especially significantly large number of the borrowers are people who have relationship with the bank in the form of micro finance borrowing. So, most of them are either microfinance borrowers or their family members or their referrals. And the people who source and the people who collect are the same which is micro finance branch managers and the people who have been operating micro finance, who have been building relationship with these clients, they are the ones who are involved in this sourcing and collection also. Maybe that is probably one of the reasons why this book has done well. So those are probably the difference between standalone small tickets lending entity vis-à-vis that we have a relation in that community where we lend. So, we should just note that in the past also this product has shown resilience even in terms of a few major external factors such as what I mentioned earlier.

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

Rohan Mandora: Sir, without going into numbers, what were the reasons that led to an uptick in the NPA? And are those factors changing in terms of are they stable, deteriorating, improving, some qualitative comments on that?

P.N. Vasudevan: See, first two quarters, as I mentioned earlier, it is a trend that we have seen in the past and that trend that has just kind of repeated. Typically, the first two quarters in our experience what we have seen, it is weak, it is coming off the year-end and then the rains and so on and of course this year we had the elections. So these are typical events which result in some level of collection efficiency going down in the first two quarters, and typically, subsequent to that for a variety of reasons at the industry level takes place, it does change, and it does come up. So beyond that there is nothing very specific that I could allude to.

Rohan Mandora: Sir, essentially we are not seeing an overall vis-à-vis last year similar time and economic environment deteriorating that sort of factor, it is just the seasonality that has led to because last year in 2Q, the uptick was primarily because you had moved to the daily recognition of NPA, but this year, even if you adjust for that, around 45%, 50% higher slippage?

P.N. Vasudevan: The external market factors cannot be taken out of the equation completely, I mean, the commercial vehicle space as we all know is under certain level of stress in the market, but our new vehicles, if you see we do not fund trucks, we do not fund the HCVs and the HCVs are the ones which are maximum impacted in terms of the growth and things like that, so, we are really not into that, we are really into the last mile delivery vehicles which is like the SCVs and the LCVs. But, the reality is that there is a market slowdown in terms of commercial vehicles offtake, which is clear, so the availability of freight for the transporters, etc., is definitely less than probably what it was in the past. So, that is bound to have its effect. So what do I conclude? I cannot talk to you about the third and fourth quarter expectations, but the market stress is definitely there, there is no doubt on that, but hopefully the third and fourth quarter you know how the market response, so we have to just see how it goes.

Rohan Mandora: In terms of the SRTO in the used segment where we lend to, would all of the vehicles be financed as in they would have existing loans, some color on that borrower segment for us?

P.N. Vasudevan: In the used CV, most of our borrowers are first-time borrowers. So this is the first vehicle that they will be buying. In fact, nearly 80% of our borrowers will have (-1) CIBIL score which is like they do not have any record of borrowing and things like that. So that way most of them will be the first time borrowers, first vehicle that they are buying.

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

Jehan Bhadha: Sir, other income is down for second quarter in a row. So, if you can provide some details why the fee income on both assets and liabilities is not growing?

P.N. Vasudevan: I will give it to CFO.

Sridharan N: See, the other income on QoQ basis, if you take now it is higher by nearly Rs.5 crores, Rs.59 crores were last quarter, this quarter is Rs.63.92 crores, and the thing is that even if you look at the liability segment income, it has gone from by Rs.30 lakhs actually. If you look at YoY on the liability segment income, it has gone up from Rs.14.68 crores to Rs.17.09 crores. We had PSLC income in the last four quarters, which is not there in the Q1 and Q2 of this year.

Jehan Bhadha: But even if we adjust for that, even then the YoY figures are flattish?

Sridharan N: If we go to Slide #30 where in other income, we have given the detail of Q2 of last year and the Q2 of this year, and except for the adjustment for the PSLC income and securitization which is decreasing trend, otherwise, it is most similar actually.

Jehan Bhadha: Because looking at your deposit growth as well as your loan growth, it should have been slightly higher?

Sridharan N: If you look at the processing fee on the loan side, the composition with regard to asset growth, it makes a difference because we have different fee income percentages for different products actually, microfinance to other corporate loans and other things.

P.N. Vasudevan: If you see processing income has gone up a little bit, about maybe Rs.2 crores or so. But mainly there is a reduction of Rs.7 crores in PSLC and there is a reduction of nearly Rs.4.5 crores or Rs.5 crores on the interest on securitization, so that is about nearly Rs.12 crores. So, the Rs.12 crores has gone out because of those two factors which probably is one of the biggest factors. But these are the one-time income which came and that has gone out.

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

Sajan Didwania: Actually, I was also looking the breakup of this NPAs and the slippage which you have said in the earlier question that you cannot reply. Nothing else I have.

P.N. Vasudevan: Okay, thanks.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sir, question is with respect to our aspiration to reach around 2% RoA until we work for that and without getting into any forward-looking numbers. But there were the two major ROAs booster are -- one is cost-to-income and another is our cost of funds. So, one, where we need core CASA, which has been pretty tepid in last four, five quarters and you answered what all you are doing. On cost-to-income, what are the measures are we taking to bring it down? I am not looking for a number.

P.N. Vasudevan: I think we have answered this similar kind of a question may be in the past also. If you look at it, our number of branches has not been really growing in the last may be six quarters or so. Most of the branch expansion has happened and now we are really in the process of leveraging those branches and that is where the cost-to-income should keep supporting overtime as we leverage existing branch network. I think currently in terms of the banking outlets, we are pretty strong in terms of both liability and asset branches and the cost-income directionally would be kind of supported by the fact that there is a lot of leveraging opportunities that is something that we have been talking about in the past and working on.

Dhwanil Desai: Do you see your need to continuously add people to grow your asset base and liability franchise or you think that the productivity improvement can kick in and that can kind of flow through the cost-to-income ratio, is that a possibility or like we added 1,800 people in first two quarters?

P.N. Vasudevan: The final business outcome is a combination of number of branches, number of people and productivity. So, number of branches, we have been saying quite a few times in the past that we have fairly well networked now, and staff wise, yes, we will continue to invest in staff, be it for sales or be it for collection. But the staff in various other functions such as our back-end, our legal, etc., fairly well settled. And those are the things which will continue to get leveraged. I am really struggling to find the right words to ensure that I am not giving a forward-looking statement, but I hope that I have been able to fairly communicate.

Dhwanil Desai: Second question is on the disbursement. I think for the last two quarters, advances growth has been fairly decent, but the disbursement growth has been lower. So, can you comment on that to what may be the reasons behind that?

P.N. Vasudevan: If you see Page #18, micro finance disbursement YoY was less than last year by 14%, and overall, it is up by 11% all products put together, and this 11% compares to 5% in the first quarter, so between first quarter to second quarter, the disbursements have actually moved up. Beyond that, I am not able to say much because I would not be able to predict into the future, but yes, there has been an uptick in disbursement between the first and second quarter. And the other products have grown, Microfinance year-on-year has come down.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Hi Vasu! Three questions; first is could you sort of give some color around these 1,000 people that we have added since the fourth quarter, how much would have been in frontline staff and how much would have been in the back office, just some color around where the capacity is going on since we are not adding branch distribution. The second question is, if I remember correctly actually in the base quarter of 2Q '19, there was a one-off in the employee cost of about Rs.13-odd crores related to gratuity. Just wanted to reconfirm that, that was correct, and that is the reason the employee cost is looking slightly higher? Third question is, some days back I was just seeing the website and Sanjeev's name was not there. So just wanted to check any specific reason, some color around that?

P.N. Vasudevan: The first question in terms of the new headcount which has been added. So, as we mentioned earlier, this is largely in both sales and collection at the front end. The staff taken are typically for both in the used commercial vehicles to some extent, the new commercial vehicle to a larger extent, and the remaining are in the small business loans. So, these are the areas where most of the staff have got added. In terms of the third question, yes, Sanjeev Srivastava who was handling our branch banking, he has decided to move on. So we are looking at someone else to replace him.

Dhaval Gada: Just before that on the first one, almost 80% or 70% would have been on sales and 30% would have been collection. Some ratio around how much would have been on sales and collection?

P.N. Vasudevan: I do not have the exact plate, but approximately, if you want me to estimate without holding me to hit, I think it will be closer to about may be 50%, 55% on sales and balance 45% to 50% on collections. So, we have been also strengthening our collections teams; from the last September to this September, that 1,800-plus staff that I mentioned about, there has been a lot of strengthening of the collection teams also over the last maybe about a year's time. So it is not exactly 50-50, maybe slightly very-very close to that I would say. I will give it to Sridhar for the second point.

N. Sridharan: Regarding the gratuity valuation, it is done based on the actual valuation. We had Rs.13.48 crores in the Q2 FY'19, and it was one-off situation and depends on a lot of parameters done by the actuarial. For this quarter, we had Rs.3.8 crores on account of this reversal.

Dhaval Gada: This quarter also there was a reversal, is it?

N. Sridharan: It is a small amount. As I told you it depends on number of parameter as per the actual valuation.

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

Nidhesh Jain: On cost, what our understanding was that we have already invested in our franchise both on asset and liability, and since the growth have also been quite tepid, growth has improved slightly in Q2 but 11% disbursement growth on a base that you have currently given the infrastructure that you have is not a great number to speak about. So, what is the rationale of investing so much in the employee count given the growth environment is also not that great? Secondly, 5% and 11% growth that we have reported is, have we been cautious that has resulted in lower growth or we have already maxed out on our capacity side?

P.N. Vasudevan: So, as I mentioned in the previous question also, we have been strengthening the collections team also significantly over the last 12-months. So, as I said earlier, close to 50% is really on the collections side, the remaining really going on the sales side. Yes, we have not opened much branches. If you can notice for the last 12-months, the number of new branches added have not been much. So basically the team strengthening is one on collections which will anyway keep happening as we go forward, and sales side is typically because some products are not rolled out by all the branches, there is still a lot of products where it does not work across all the branches. So the growth really coming from rolling out existing products to branches which is still not covered. So that is where the investment in the sales happens, and collection happens necessarily over a period of time. If you see we are significantly into the lending to informal economy customers where their banking habits are not very strong. So, we tend to have much higher average cheque return ratio compared to people who will be funding to the different profile of customers. So, collection investment is something that we have been doing right from the beginning and that is something that we continue to and we will have to continue to do it. And on a risk/return business, you will have to see whether it is still making sense.

Nidhesh Jain: Growth has been muted, it is not a great growth number to speak about. So do you think our capacity is maxed out or we were extra cautious in this environment?

P.N. Vasudevan: Typically, you want to take it easy in the first half because as I have mentioned earlier that the collection does get reduced in the first half as a trend as we have seen that, and on top of that the macroeconomic scenario is there for all of us to see. So, we will necessarily have to be taking all factors into account while pushing for growth. Our commercial vehicles of course is the most exposed to the market because it is directly linked to the economic movements. To that extent, yes, we want to be little cautious… we have to be always cautious anyway. Whereas the Small Business Loans to some extent are not so linked. So the impact of that, as I mentioned earlier, we have been able to weather GST or weather demonetization, etc., and the small business loan has been able to weather all of that and still come out fairly well, they did go down in collection during those periods, but within some period in time, they were able to catch up again. So these are the things that I am sure everybody will calibrate on a continuous basis. So the level of growth is something that we will keep calibrating based on what we see outside in the overall market and what we see inside in terms of our own portfolio behavior. So, these are the things that one keeps balancing out.

Nidhesh Jain: On the credit cost, I see the write-off number is quite high in the quarter and I think which is the main difference which has led to sharp increase in credit cost on YoY or sequential basis. So, can you give some color on the write-off in which segment we have done write-off, and what is the quantum of write-off?

P.N. Vasudevan: In first quarter, the provision was Rs.30 crores, and second quarter the provision was Rs.45 crores, so there is really a difference of Rs.15 crore between Q1 and Q2. If you want to kind of look at the breakup of this Rs.15 crores extra, about Rs.7.5 crores came from vehicles, more than what it was in the first quarter, and another about Rs.3.5 crores came from the extra provision required to be made for certain assets which moved from 25% to 100% provisioning. Though the NPA did not change, but the provision requirement changed because of the aging of the NPA of certain book which moved from 25% to 100%. Lastly, the standard assets provisioning, there were some change in that. So, these are the contribution for that extra Rs.15 crores.

Nidhesh Jain: I know you cannot comment on the forward-looking guidance, but the growth that we have seen some slowdown in growth. So, do you expect that to normalize over a period of time?

P.N. Vasudevan: I am constrained we are not in a position to give you an indication of how we expect things to move… I am really constrained. Sorry.

Moderator: Due to time constraint, we will take the next question which is the last question of this conference, from the line of Bhavik Shah from B&K Securities. Please go ahead.

Bhavik Shah: Sir, how much percentage of your loan book would be linked to the external benchmark as mandated by the RBI?

P.N. Vasudevan: There are factors in what the question that you are asking. One is how much of loan is linked to the EBR. Second is how much of those loans are floating or fixed. So there are two parts to that question. In Equitas, because my MCLR has traditionally been in (+15%) somewhere in that range all through, so any kind of a loan where the lending rate is anything less than around that mark of 15% has been always linked to EBR. But those loans are fixed rate loans because traditionally these borrowers are small borrowers and they do not understand the meaning of floating rate. So, traditionally these loans tend to given in fixed rate loans. The percentage of loans which are linked to EBR and also floating, as a combination that percentage may be in the range of between 2%, 3%. That could probably be the thing. I am just trying to hazard a guess, but I have a feeling it may be not very far beyond that.

Bhavik Shah: I see a lot of P&L numbers of Equitas Small Finance Bank being restated of previous quarter and last year. So I understand you have been moving to the IPO. But any sense on why are the restatements been done?

Dheeraj M: The previous numbers were consolidated EHL IGAAP, and now we have given you is for the standalone bank. So you cannot really compare those numbers with this.

Bhavik Shah: From what I understand, last quarter's PPT had P&L of Equitas Small Finance Bank?

Sridharan N: No, we have given you consolidated on IGAAP basis, and reconciliation we have provided between the IndAS and IGAAP basis. This time what we have made is that the IGAAP of bank numbers and consolidated EHL on IndAS basis.

Moderator: Thank you. Now I would like to hand the conference over to Mr. John Alex for closing comments.

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

Moderator: Thank you. On behalf of Equitas Holdings Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.