"Equitas Holdings Limited Q4 FY-19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Equitas Holdings Limited Q4 FY19 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 & 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 participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. S. Bhaskar. Thank you and over to you, sir.

S. Bhaskar: Good afternoon, everyone. Welcome to the Equitas Holdings Limited Q4 FY19 Earnings call. During the year the company adopted Ind-AS for financial reporting while Reserve Bank of India has mandated Ind-AS for NBFCs it has deferred Ind-AS implementation for banks. While we have prepared the consolidated and standalone financials for EHL on Ind-AS basis for statutory reporting for the purpose of this presentation we have continued to follow iGAPP for an easier understanding and for easier comparison with peers. However, the reconciliation of Ind-AS results has been provided in the investor presentation.

Coming to our performance. We had a good quarter. The total advances as of March 2019 stood at Rs. 11,835 crores registering a growth of 44% Year-on-Year. PAT for the quarter was at Rs. 68.7 crores as against Rs. 34.89 crores in Q4 FY18 registering a growth of 97%. The return ratios for the quarter also saw improvement with ROA at 1.77% and ROE at 11.16%.

Before I invite P. N. Vasudevan to take you through the performance of the Bank in detail, I would like to mention that we are awaiting regulatory approvals especially from Reserve Bank of India and SEBI for filing the scheme of arrangement with NCLT for their approval for the eventual listing of the Bank.

P. N. Vasudevan: Thank you, Bhaskar. We had a good fourth quarter backed by robust growth in advance, stable operating expense and continued traction in new products like new commercial vehicles and working capital loans. The portfolio is diversifying as per our plans. Vehicle finance and microfinance contributes approximately around 25% each while the small business loans contribute around 40%.

The growth of used commercial vehicles last year was a little muted. This year we are increasing the sales team for the used commercial vehicles, which we expect to increase the contribution of used CV for the current year. The new LCV financing which we introduced last year has started off well and we have already managed to get about 2% all India market share and this will continue to remain a thrust area for the Bank.

In our small business loan segment, we are seeing a strong growth in the Rs. 10 lakhs to Rs. 25 lakhs ticket category which also helps us in our priority sector achievement. However, the average ticket size for the small business loans is still at Rs. 4 lakhs and very interestingly the first-time borrowers out of these borrowers from this segment is nearly 98%. In the MSE segment we have seen good traction in the secured working capital loans and since we have stopped unsecured business loan that portfolio will continue to de-grow.

Our corporate loan book grew as we resume lending to NBFCs, which are largely focused on microfinance, and retail secured lending. Our exposures are typically to NBFCs who are not either exposed to at all or very little exposure to the CP market. Also, currently we are not looking at funding housing finance companies.

Coming on to the GNPA, it was 2.52% for the fourth quarter against 3.13% in the third quarter. There was a technical write-off of about Rs. 31 crores and the GNPA before technical write-off would have been at 2.79% which is still good compared to 3.13% of the previous quarter.

On liabilities, we focused on building our retail deposits as we increased our term deposit rates. We mobilized around Rs. 425 crores in retail FDs in the fourth quarter. CASA came in at about 28% as against 30% in the previous quarter. Going forward we expect CASA ratio to remain a little muted as we will continue to keep focusing on TD to fund our asset growth.

We have continued to progress well on the third-party distribution in the last year and the Bank had mobilized over Rs. 159 crores in the insurance premium. For this current financial year 2020 though we plan to add only 20 liability and 20 asset branches, however, we are looking to add sales and collection teams to help leverage the existing geographical presence. While this will increase the headcount, it should also help grow the advances by leveraging the rest of the operating cost.

To sum up – we are seeing good growth in all our lending products and our book is now fairly diversified. The portfolio quality touchwood continues to remain healthy and stable and we are seeing good improvement in the productivity.

On the guidance front we are looking at about 35% to 40% growth in advances for the current year and we expect a 15% increase in OPEX.

With this I would like to handover to the operator and we will happy to take questions from your end.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha: Sir, if I look at your disbursements, they have been around that level of Rs. 2,200 crores every quarter for last three quarters. So, what should we read into this? I mean why are they not growing?

P. N. Vasudevan: So, the third quarter was around Rs. 2,265 crores and fourth quarter was slightly lower than that largely because in the fourth quarter we could not really increase the lending in our microfinance and small business loans because of, one of course there was lot of holidays in January and secondly in March when the code of conduct was released for the elections, we could not really do a lot of mobilization of the group for the microfinance lending and to some extent the smaller end of the small business loans is an over cross sell to the MFI customers. So, both of them we had to slow down a little bit during this period of March. Therefore, the fourth quarter disbursement is actually slightly lower than the third quarter.

Jehan Bhadha: Okay. And sir, on the OPEX front, if I remove the PSLC expenses for this quarter and immediately last quarter Q3, there is a growth of almost 11% in the OPEX. So, what has led to this increase?

P. N. Vasudevan: I will ask Sridhar, our CFO to take that.

N. Sridharan: This is Sridharan here. If you look at the difference, it is Rs. 263 crores to Rs. 275 crores, that is a Rs. 12 crore increase. So, if you leave the one-time thing like a PSLC premium, the other expenses have moved from Rs. 80 crores to Rs. 96 crores, so Rs. 14 crores. One is that because of the Supreme Court order, which is not clear with regard to the legal position, we have to make a provision in respect of the special allowances being considered as part of that basic salary. So, we have to provide the employee-employer contribution as well as the interest to the extent of Rs. 5.5 crores. So, this is one thing. And second, the normal year-end provision generally we make on expenses, the remaining which happens every year actually.

Jehan Bhadha: Okay. So, post these extraordinaries, I mean you still maintain that OPEX growth will be 15% for current year?

N. Sridharan: Yes, we maintain that for the next year, it will likely to maintain at 15% actually because there are not much of branch additions.

Jehan Bhadha: Right. Sir, also in the opening remarks, you mentioned branch additions 20 for liability and assets. So, do you mean totally there will be 40 branches, 20 for liability and separately for assets?

P.N. Vasudevan: Yes. As of now our branches are still separate. So, yes, it is 20 liability branches and 20 asset branches.

Jehan Bhadha: Okay. And sir, last question. Again, in your opening comments, you said that small business loan, I am referring to micro LAP. So, there, you say that 98% of the borrowers are first-time borrowers. Whereas, I had the impression that you actually pick up customers from your existing MFI pool, the top customers and lend to them. So, is my thinking wrong or if you can just explain?

P. N. Vasudevan: Yes, your thinking is absolutely correct. Nothing wrong with that. When I say new to Bank, what I mean is the individual loans, not the group loans. They have no exposure on the individual loan side. They are only part of the microfinance group, but they have never borrowed under individual names. So, this when they take a loan from us, they are actually borrowing on their individual name for the first time.

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

Nidhesh Jain: Sir first, any guidance on the return ratios over next couple of years? And from diversification perspective, you mentioned that bulk of diversification has been done. So, do we expect our loan books to remain broadly stable from here onwards?

P. N. Vasudevan: See, in terms of guidance, we have mentioned two things. One is our expected growth in advances for the current year and also the expected increase in the expenses that we foresee for the current year. But beyond that, as a practice, we have not really given guidance on anything else. So, I am afraid that you will have to just kind of put your own model to find out the likely returns. But of course, we have the trends over the last few quarters to guide you on that.

In terms of the loan growth and stability, yes see we have a good diversified set of products now. And currently, I do not think we are even looking at any introduction of new products. The existing products is what should really be scaling up. And on the asset quality, touch wood, it is remained good. And that is a principal concern for us all the time.

We will always be very, very cautious on our asset quality and fully focused on that. And we will keep investing in terms of our collection, legal, etc., to ensure that our asset quality remains good. Because only if asset quality remains good, there is any motivation left in us to do business. So, asset quality will remain a principal focus for us all the time and we hope that the current trend of good quality assets will continue.

Nidhesh Jain: So, from ROA perspective, the trend has been on the upward trajectory. So, you expect ROA to further improve from here onwards?

P. N. Vasudevan: I think I told you that we do not want to give guidance on things other than the two that we are talking of. But you can see the trend, and I am sure you should be able to work that out.

Nidhesh Jain: Sir, and the last question is that we have almost now 2.5 years of elapsed post Bank transition. So, the progress that you have seen is as per your expectation or do you see further room for improvement on any front in terms of your transition in the last 2.5 years?

P. N. Vasudevan: Yes. See, when we were about to convert into a Bank, obviously we had certain plans at that time in terms of our financial performance over the next few years. And of course, it was majorly upset by the demonetization and its after effects. So, definitely, that was an issue. And I think it set us back by nearly about a year's time. But now that is behind us and that is completely taken care of on our books. And that issue is behind us now. And we are now back to kind of steady state business.

And if you look at that from compared to our plans, I think we are fairly in line with our plans. We did expect that we should be able to comfortably mobilize deposits to fund assets. So, we never really expected that we should have trouble mobilizing deposits. And that is proved to be true because we have been able to be very comfortable on our liquidity front. We do not have much of an issue on that.

We also knew that CASA will be a challenge for a new brand and especially you have the word small finance in your name and when you go to the deposit and customers market and people do not even understand what small finance means, they have not seen it in any other banks so far, so there will be a natural hesitation to start a savings or a current account with you. So, we knew that those will be some kind of difficulties we have to overcome.

And we knew that CASA growth will take some little time to kind of come up. But we have done slightly better than what we initially estimated. Our CASA ratio at 28% is slightly better than what we rather imagined when we were converted into a Bank. On the asset side, of course, as we mentioned, we have a good range of products. And most of them are products that we are doing as an NBFC. What we introduced after becoming a Bank is principally the lending to other NBFCs.

The MSE loans that we have started and the slightly larger ticket loan, which is Rs. 10 lakhs to Rs. 25 lakhs business loans, secured BL that we have started. These are the 3 we started post becoming a Bank and all of them, thankfully, have settled down well and people are all in place. And so I would say, by and large, our plan, whatever we had when we convert into a Bank, by and large, I think we are on the ball on that, with the exception that I think we probably lost about a year of our expectations because of the demon issues.

Nidhesh Jain: Sure. And just last one on the balance sheet. The investment book has come off quite a bit. So, do you expect further reduction in investment as a percentage of funding or it is mostly done? And we have seen cash going up quite a bit in this quarter. So, what is the reason for that? And whether it will come down over next subsequent quarters?

Natarajan M: Yes. On the investments, during the first half of the year, we had some discretionary higher investments just to earn some spread income both on the SLR and non-SLR. We are looking at the developments in the CD market and as well as the shrinking spreads in the investments so we consciously decided to shrink down the book to bear minimum where it was it was meant only to meet the reserves.

So, now it is sort of a hand-to-mouth kind of investments with adequate liquidity cushions. So, going forward it is unlikely to grow in the near future. It will be growing along with the balance sheet growth.

Nidhesh Jain: And the cash thing?

N. Sridharan: On the cash front at the year-end, there was Rs. 784 crores money at call short notice. So, if you remove that, it is normalized.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Firstly, in terms of deposits. If we look, the proportion of a deposit picked up more than Rs 10-odd crores and there is still 60% odd. So, maybe with the strategy of focusing on the term side, would it again be like more or less a similar proportion or we see the retail deposits inching up from the current level?

Sanjeev Srivastava: This is Sanjeev here. I think if you look at it, our currently focus is more on building retail term deposit. So, term deposit is basically looking at the asset growth that you are raising as per the comfort. But our retail engine recently started working very well; post we increased our rate from November onwards.

We are starting getting good flows. So, focus is primarily on retail TD only. But in case we need and our asset requirement is there from the treasury side, we raise our bulk deposit. But at this moment, I would say that our endeavor is to do at least 60% growth in retail TD out of the total term deposit requirements.

Kunal Shah: So, what would be the differential between this more Rs. 10 crores and less than Rs. 1 crore. So, up to Rs. 2 crores for 1 year, we are offering 8.2%. But actually, for Rs. 10 crores, what will be the differential rate which we are offering now over a year?

Sanjeev Srivastava: So, that rate depends upon the market. So, maybe in the month of March, that money was coming at a rate of about close to 9% in the market. But now that rate has also come down. Currently that money is coming at 8.4% to 8.5% so market also has corrected. So, we cannot give an indication, however, because our focus is on retail TD, that also we have reduced some from 16th of April because we are comfortable in terms of getting close.

Kunal Shah: Okay. So, this 8.2% which you are offering, I do not think we maybe in terms of this strategy of mobilizing more retail, we need to take it up further. In fact, we are getting good flows even at the current level?

Sanjeev Srivastava: Correct, absolutely right.

Kunal Shah: Okay. And secondly, in terms of the overall loan mix. So, you highlighted in terms of the particularly say with respect to the business loans. So, now here on, you said like this book would continue to run down further, in fact, we will not be seeing the growth in this?

Bhadresh Pathak: This is Bhadresh here. So, we are running down the unsecured business loans. But the secured portfolio is a wider focus area right now. So, whatever is de-growing is unsecured actually and that is a conscious strategy to degrow it.

Kunal Shah: And when we look at this overall GNPLs, say on small business loans, which is almost 2.56%, so obviously there is growth of more than 70% from FY18. So, if I have to look on that base, the NPL trends still seem to be relatively higher compared to where the industry is there currently on the small business loans. So, any view on this in terms of how should we see this and what would be the seasoning in that portfolio?

Kunal Shah: The small business loans, 2.56% is the GNPL. And in fact, this itself has grown at 75%. So, if I just look at one-year lagged book, in fact that the GNPL seems to be much higher than the market?

H K N Raghavan: Till 2018, originally, we had started two verticals which was LAP as well as housing. And in that case, what has happened, that particular vertical got closed off. And that vertical's outstanding is roughly around Rs. 450 crores. So, that particular set of loans that we sourced was at a higher NPA.

But if we look at the NPA of the products, which is small business loan up until Rs. 25 lakhs, it is less than 1.5%. So, that particular portfolio comes down, the NPA percentage will also come down. But otherwise, in terms of small business loans, it is well under control. It is a legacy book of roughly around Rs. 400 crores is still there. There the NPAs are.

Kunal Shah: Rs. 400 crores even if we include maybe, I do not know the NPL ratios. But considering that overall book itself is Rs. 3,800 crores or Rs. 4,700 crores?

H K N Raghavan: Rs. 4,700, yes.

Kunal Shah: Yes, so maybe if it is like a delta of 1%, is like significant part of it which is under stressed already?

H K N Raghavan: The legacy book which is there, definitely there, the portfolio, if you look at it, they are under stress. One second, I will just give you the details. See if you look at the legacy book which is there, it is stable now, it is not further deteriorating. And the fresh loans that we have lent, which is small business loans, is absolutely under control, around 1.1%.

Kunal Shah: Okay. So, maybe if we write it off or maybe if we do 100% provisioning is there then overall?

H K N Raghavan: No question, it is all secured loans that we will be recovering. Why do we write-off. They are all secured loans where the LTV is around 50% to 60%. So, there is no question. And all the SARFAESI has been filed and we will definitely be able to recover sufficient, no question.

Kunal Shah: And lastly, in terms of MFI. So, this quarter we have seen the sequential growth. So, now maybe given the current situation, what will be the outlook particularly with respect to the MFI? Would it be growing now in line with the overall growth? Or maybe it will be the normalized growth of 10%, 15% in this portfolio?

H K N Raghavan: I think the normalized growth in microfinance would be around the 20%, 25%, is the normalized growth. Whereas the industry when we look at it, it was growing at 40%, 45%. So, we should look at around about 25% growth which is a normal growth.

Kunal Shah: Okay. So, from here on, maybe we should look at almost 20%, 25% in MFI?

H K N Raghavan: Yes.

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

Rohan Mandora: Sir, within the housing finance portfolio, like we had a disbursement of around Rs. 289 crores for FY19. But outstanding has still seen a dip of around 19% year-on-year. So, just wondering as to what is happening there? And is there a change in strategy on home loans and are we facing significant prepayments? And who are these entities who are taking all the loans from us?

H K N Raghavan: I think coming back to this housing, if you look at it, there is some reclassification of housing because housing also had a 20% of housing LAP, which was to be generally booked under. So, it is classified under the same heading. But after reclassification, so there is a reduction because it is now pure housing, it is not LAP under housing. So, that is the reason you will find a difference of around about 20%.

But whereas actually if you look at it, the current year, we are disbursing around about Rs. 17 crores to Rs. 18 crores month on month. So, maybe next time, we will kind of put it across reclassified and then send it across. It is not comparable probably. Q4 will correct it and then give.

Rohan Mandora: And just in terms of prepayments, like how is the trend in the home loans right now?

H K N Raghavan: Home loans, currently we are disbursing around about Rs. 18 crores and we expect the current year some kind of a growth in terms of disbursements. Otherwise, there is no special focus as such because it is a normal. We do have leverage our existing distribution. So, like we kind of pitch for all products, we also pitch for housing. And there is no housing vertical which separately goes in and drives housing.

Rohan Mandora: And sir, any guidance on NIMs for FY20?

P.N. Vasudevan: No, as I said in the beginning, we do not give guidance on anything except those two, which is our advance growth and the cost. The rest is something I am sure we can calculate because most of the data points are there on the presentations.

Rohan Mandora: And sir, in terms of the other OPEX, you indicated that there are some year-end provisions. So, if you could quantify that, what was that amount?

P. N. Vasudevan: That was about Rs. 5 to 6 crores.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.

Roshan Chutkey: Sir firstly, I want to understand the growth in number of loans that you have done year-over-year. It looks like because if I look at the disbursement ticket size, it is for example for the MSE finance business, it has grown by almost 3x, right? And the loan book growth is something on the order of 28%, 30%. Now is it because of a change in mix here and think you would be moving towards working capital? What is leading to this significant increase in ticket size and what is the number of loans that you are going to?

Bhadresh Pathak: See, we are de-growing the unsecured business loans, which had a lower ticket size. And we are only focused on secured working capital, which is a higher ticket size. So, if I compare the two this reporting is combined actually. So, the average ticket size of BL on a stand-alone basis would be around Rs. 13 lakhs to Rs. 14 lakhs, whereas working capital will be in the range of Rs. 60 lakhs to Rs.65 lakhs.

So, the combined portfolio when the working capital is growing significantly and the BL unsecured business loans is coming down with no addition at all, the average ticket size is bound to increase. So, that is the reason why you see that increase.

Roshan Chutkey: That we are lending to? What gives us more comfort to give a Rs. 60 lakhs loan compared to a Rs. 13 lakhs, Rs. 14 lakhs loan? Is it because maybe we have security also right now or is it?

Bhadresh Pathak: Working capital is completely collateralized. Plus, we have an exclusive charge over the entire current assets. So, he is into an exclusive banking relationship with us, plus the collateral security is to the extent of more than 100% of the exposure. So, which is covering us more than required, that kind of cover it is providing so that is the reason.

Roshan Chutkey: But can you share the number of loans here? How many accounts did we have a year ago and how many accounts do we have now?

Bhadresh Pathak: See, this working capital phenomenon is only a year old. So, if I tell you the number of accounts.

Roshan Chutkey: BL, unsecured and working capital put together?

Bhadresh Pathak: Yes, I will tell you the number of loans. The number of loans total is 2,874 out of which, secured is 302 and unsecured BL is 2,572

Roshan Chutkey: And what was it a year ago?

Bhadresh Pathak: So, year ago if I tell there was nothing in terms of a secured working capital kind of a thing. So, the entire portfolio was unsecured a year ago.

Roshan Chutkey: Sure, and on the vehicle finance side, similar numbers or number of loans as of now a year ago?

H K N Raghavan: 83,000 and currently it is 96,000.

Roshan Chutkey: So, this pick up from 3 lakhs to 5 lakhs almost in ticket size how does?

H K N Raghavan: Specifically, because we started the new CV.

Roshan Chutkey: New CV, that is right.

H K N Raghavan: So, the new CV on an average is around about 4.5 lakhs to 5 lakhs, it is slightly more than the used CV.

Moderator: Thank you. The next question is from the line of Gaurav Kochar from Ambit Capital. Please go ahead.

Gaurav Kochar: I have a couple of questions. Firstly, you mentioned that you will be moving towards more secured lending with higher share of working capital business loans already part of the loan book and increased focus on secured lending. And on the liability side, you also mentioned that the CASA would be muted and you would focus on the retail TDs instead. Do not you think this strategy would put NIMs under some sort of pressure?

P. N. Vasudevan: See as I said in the beginning, we have a very distributed product range. So, 25% of our business comes from microfinance, 25% comes from commercial vehicle, and 40% from the small business loans. 5% is from the small corporate, mid-corporate, which is largely lending to the NBFCs. And another 5% is from the MSE division. Now out of that last 5% is where today the unsecured deal, which was there earlier was there. And now that is being replaced with secured working capital which will come at a lower yield.

But the secured working capital that we are giving now is, the ticket size typically, on an average, is around 70 lakhs, 80 lakhs. And the cost of operation for that is obviously going to be reflecting that kind of a ticket size. And the quality of the customer should reflect in our NPAs also. So, overall, if you see our NIMs, it is going to keep coming down over a period of time until it stabilizes. And when it will stabilize is really a question of when our portfolio mix will kind of mature.

Over the next maybe 3 to 4 years or a 5-year time frame, you will see our portfolio mix changing. The MSE, which is about 5% now, should maybe become maybe around 15%, 20%. While that will then be reflected in terms of the other product's contribution coming down by maybe 3%, 4% each. When that happens, more or less we would have reached to a situation where the product mix would have kind of stabilized. And then from there on, you should be able to see a stable NIM.

So, until that time, the NIM will come down a bit because the new products have a lower yield. But then the new products also come with a lower operating cost and hopefully much better quality of asset also to reflect in a lower GNPA. So, the offset of that should really be able to manage the drop in the yield.

Gaurav Kochar: Also, sir, we have seen many of the small banks expanding into the Eastern geography. Any specific reason why we are not venturing into that geography because many of our peers are doing that because we get a steady liability in East and there is a lot of opportunity in the East. Why are we not exploring that?

P. N. Vasudevan: See, we are already having a lot of our presence in South, West and North, and the investments have already been done in terms of the supervisory layers, structure of zonal heads, zonal offices, everything is already done in South, West and North. And so there is no reason why at this point we should really try and expand in to East where again, there will be a lot of investment cost that we will have to incur. And in the markets where we are currently operating at present, we actually see still a very large amount of the potential which is not tapped.

So, we still see a large potential, be it liabilities, be it advances. We still see a very large amount of potential in just the markets where we exist. So, that is why we are not really looking to invest in completely a new zone because that is going to be heavy investment cost if we have to go to a new zone starting from a zonal office, etc. So, we will not do that for the present. Maybe we will have to look at it a few years down the line when we believe that we are kind of saturating at least at some level of the current markets.

Gaurav Kochar: And lastly, our disbursement ticket size in microfinance is Rs. 29,000. Where do we see this going in the next year or so? Is there any possibility of that reaching close to Rs. 40,000, Rs. 45,000 which we have seen some of our peers?

H K N Raghavan: I think currently average is around about Rs. 29,000. And it might increase it very partially maybe a minimal of about Rs. 3,000 to Rs. 4,000 increase, but definitely not Rs. 45,000.

Gaurav Kochar: And this would be pan-India, right? This would not be different for different geography? It will be close to Rs. 30,000 in all geographies?

H K N Raghavan: Yes, more or less.

Gaurav Kochar: So, is it fair to assume that going forward, the microfinance book would grow in line with the customer growth the number of customers that you add?

H K N Raghavan: Yes. I think the rate at which you are going to add the client, right? And the rate and a little bit of increase in the ticket size, we should look at roughly around 20% to 25% growth in terms of advances.

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

Sajan Didwania: Sir, just want to clarify on OPEX front. As you said, that 15% growth you are seeing in FY20. So, in last 3 quarters, we have seen that quarterly it was around Rs. 215 crores, Rs. 216 crores. So, can we expect that it will be Rs. 250 crores around every quarter in coming FY20?

P. N. Vasudevan: On a quarterly basis, it has been typically around Rs. 250 crores now. For the full year, for example, I think our OPEX is just over Rs. 1,000 crores, Rs. 1,010 crores or something like that. So, if you divide by 4, more or less, you are talking of an average quarterly expenditure of around Rs. 250 crores. So, that should go up by about 15%. But it may not go up in the first quarter but it should average to that over the entire year, current year.

Sajan Didwania: So, what is the unsecured loan absolute number?

P. N. Vasudevan: Well, the microfinance is also unsecured. And that I think, is about Rs. 3,000 odd crores. And the unsecured BL is also an unsecured product. And I think that is about Rs. 340 odd crores.

Sajan Didwania: So, it is, say around Rs. 3,300 crores, Rs. 3,400 crores unsecured?

P. N. Vasudevan: Yes absolutely.

Sajan Didwania: And this we will be phasing out very soon?

P. N. Vasudevan: No. The microfinance, we are not phasing out. Raghavan has been very clear in communicating also that microfinance should be looking at a growth of around 20%, 25% as we go forward. So, that is something that will continue.

Sajan Didwania: And another thing, you just said that you will be focusing for funding this retail deposit and suddenly in that scenario, probably our cost of fund is going to increase from current 7.8% in this Q4?

P. N. Vasudevan: Well, we do not expect the deposit rates to actually go up from where we are now because we are as it is offering fairly good attractive interest rates on our retail deposits. So, at this moment, from the market side also and from our internal perspective also, we do not see the deposit rates going up. So, maybe it may remain here or if the market eases up and the deposit flow increases, it might come down a bit, we do not know. But at this point in time, there is no indication that the deposit rates might go up from here. And remember that as it is we are offering fairly attractive rates.

Sajan Didwania: And one more question, sir. You said that you have added 20 asset branches means 392 was the branch earlier so now it is 412?

P. N. Vasudevan: We are going to add that in this current year.

Sajan Didwania: So, it has not been added?

P. N. Vasudevan: Yes.

Sajan Didwania: Okay, so currently the number of branches is 392 around only?

P. N. Vasudevan: That is the liability branch. And the asset branch will be about 500.

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

Anand Bhavnani: Sir, our customer base in CASA seems to be down from 69,000 to about 40,000. So, what could be the reason for this? This is for current account and for savings account, this is down from 378,000 to 357,000 so what is the reason?

Dheeraj Mohan: No, that is a typo error. So, you will have to correct those numbers, that is 74,925 is current account, and SA is about 402,300-odd. So, that numbers are actually what we have put. Those numbers are customers excluding the MFI customers. So, the total customer base is 74,925 for CA and about 420,000 for SA. FD remains the same.

Anand Bhavnani: And sir, overall, if I were to see NIMs have contracted in Q4 as compared to Q3. So, apart from I mean is this primarily driven by increasing term deposit rates? And if you can comment a bit more on that?

P. N. Vasudevan: Between the third and fourth quarter, if you will see, our cost of funds has more or less remained the same, 8.11% and 8.09% or something. So, practically, the cost of funds has remained the same. So, the NIM contraction of nearly 15 bps in the fourth quarter compared to the third quarter has not contributed from the cost of funds perspective it is really contributed from the changing asset mix perspective.

And as I mentioned in the beginning itself, in the fourth quarter, our disbursement in both microfinance and the Microlap was lower given these uncertainties around the election process going on in the country. So, that was a little reduced consciously. And obviously they are the higher yielding ones, so naturally they have an impact on the NIM. But this quarter onwards hopefully those two products should be back to normal.

Anand Bhavnani: And sir, earlier in the call, you mentioned that as we envisage our business at the time of starting the Bank, we are broadly on track. I just wanted to understand in terms of CASA, at a percentage of borrowings, we are good but in terms of the rates that we are paying, are we really comfortable? And what is the aspect of this CASA ratio that we would like to improve?

P. N. Vasudevan: See, in terms of the rates we pay on CASA or TD is all, two things. One is it is just a factor of the market conditions, what is happening in the market, who is paying what and what is the kind of flow that comes in, etc. That is one factor, which clearly we have to be also factoring when we kind of look at our interest rates.

And the second thing is in terms of the percentage of CASA contribution. Yes, currently it is about 28%. But you might see that come down a bit basically because we are looking at a 40% asset growth. And the 40% asset growth really means that you need to kind of raise money, which is about 55%, to provide for your SLR/CRR also. So, our deposits have to grow by anywhere around 50% to 55%. And that level of growth we will try, of course our first effort will be to try to get that growth as much as possible from CASA. But whatever CASA cannot produce in the immediate term has to be filled in by both retail deposits and bulk deposits.

So, because of that, the CASA may come down as a percentage of contribution, while it may continue to grow as a quantum. But maybe when the Bank's growth rate kind of stabilizes at a more normal level, then you will see CASA percentage starting to both stabilize and start growing. But until the time that the Bank is going to pursue a fairly high level of advances growth, it is very unlikely that the CASA will keep up the contribution at that level of growth.

And also remember that we are still a 2-year plus kind of a brand. And so the brand recall everything is at that particular level. So, as the Bank matures and these local markets where our branches are existing, the local awareness goes up, etc., that is when the CASA growth will really start coming in.

Anand Bhavnani: And sir, lastly, in vehicle finance business, our AUM growth was about 30% in Q4, and market conditions were adverse. So, what is direct growth through branches or did we acquire any portfolios?

H. K. N. Raghavan: No, see, in terms of vehicle finance, largely UCV has grown by 12%, and largely the growth has been driven by new commercial vehicle. And the portfolio is small as of now. And I do not think the market adverse conditions are actually as stretched as of now.

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

Umang Shah: Sir, I wanted some clarification regarding the small business loans. Could you please give a breakup of the small business loans with the various tickets sizes and their yields?

P. N. Vasudevan: See, in terms of disclosure, I think we have given fairly high level of disclosure. In terms of the small business loan, it consists of really three categories of loans. One is loans of Rs. 50,000 to Rs. 5 lakhs. Second is Rs. 5 lakhs to Rs 10 lakhs. And third is Rs. 10 lakhs to Rs. 25 lakhs. These are the three subcategories in that bucket called small business loans.

So, the average ticket size for the Rs. 50,000 to Rs. 5 lakhs, average ticket size is around Rs.1.6 lakhs. And for the Rs. 5 lakhs to Rs. 10 lakhs, the average ticket size is around Rs. 6 lakhs or Rs. 6.5 lakhs. And for the Rs. 10 lakhs to Rs. 25 lakhs, currently the average is around Rs. 12 lakhs to Rs.13 lakhs.

So, that is where the average ticket size at the time of disbursement. But in terms of any further information and all that, I mean we can always note down what kind of information you need. And we will have to see how much of that is comfortable in terms of sharing publicly.

Umang Shah: Sir, just rough breakup of the SBL book. Let us say 30% is Rs. 50 thousand to Rs. 5 lakhs, some rough split?

P. N. Vasudevan: 80% percent is below 5 lakhs, it is what I am told. I do not know. I will have to check that out. But approximately, maybe that will be so. I will have to maybe look at it next quarter in terms of making a further breakup. We will have to look at that. But the 80%, somebody is saying means it is telling you off the top. But frankly, I do not know. I will have to check that out.

Umang Shah: And sir, I would want to get your view on the credit costs in the small business loans. So, as you mentioned that this loan is a cross-sell to MFI customers. So, would want to understand the correlation between the credit cost in the MFI business and the small business loans? So, for example, if demonetization happens again, MFI book will have a certain level of GNPA. So, I wanted to understand how the credit costs on GNPA levels in the small business loans would look like.

H K N Raghavan: I think we have had a substantial portfolio of individual that means small sized business loans, during the demon. And fortunately, we are not seeing any cross impact of microfinance getting impacted to individual retail loans.

Umang Shah: And sir, one data keeping question. So, the yields which you mentioned in your slides across the various products, if you add them up, we do not get the actual interest income. So, if you can explain what is the difference here?

Dheeraj Mohan: You should not read it as yield. That is why it is just the rate of interest of all the loans disbursed and it is the weighted rate. So, it will not add up to the interest income because you have NPA assets so you will have interest reversals on that. So, it is not equal to the yield or IRR of the book.

Umang Shah: So, going forward, is it possible for you guys to disclose that number? Because then it will be easier for us to model it going forward because there is no guidance on the NIM so?

Dheeraj Mohan: Right one. I think we will take that in and I think from our future presentations, we will try to get yield put in at a product segment level.

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

M.B. Mahesh: Sir, two questions. One to Mr. Raghavan. If you could just kind of highlight as to what was the reason that you had to discontinue the unsecured loan book or reduce the disbursements in that particular portfolio? And the second question is on the OPEX part. If you are projecting about 15% kind of a number for next year, if you could broadly highlight where are you putting those expenses given that you also indicated there is significant room available from a productivity perspective,?

H K N Raghavan: Mahesh, Bhadresh will answer the first question.

Bhadresh Pathak: So, on the unsecured loans, you asked like the reason for degrowing it. See, one thing is there. We are a new Bank, and starting the business of MSE through unsecured may not be perfectly advisable. We will grow the portfolio in a secured way, make a very strong and a solid foundation in terms of asset quality, and then explore the unsecured. Now when we will explore at what level of portfolio, that remains to be seen.

But right now we found that it was not a good idea to grow only unsecured with the obvious asset quality concerns in the industry. Not that our portfolio was the worse in the industry so we stopped it. It was just because of the general asset quality concerns and the business model of doing unsecured loans for a new Bank was also not very much feasible as we thought.

M.B. Mahesh: But was there any specific concern that you specifically saw in your portfolio because of which you kind of slowed down? Because you kind of coincide this with the same level of , you kind of comment to also the fact that you saw higher NPLs. So, if you did see higher NPLs and that was against what your initial estimates was, just trying to understand what went wrong in this?

Bhadresh Pathak: See, one thing is that we were not comfortable with the business model of the unsecured loans as it is practiced in the industry today. So, when the strategy of Equitas would be when we grow our customers in terms of liability franchise as well asset franchise, we will then offer unsecured to the customers who have a vintage with us, the customers whom we know.

We will do analytics and then find out who would we offer unsecured out of the existing portfolio. That would be a more prudent strategy than acquiring customers from the open market. So, that is what we thought. As a course correction, we did it. And that is how we will create our base portfolio, foundation portfolio and then we will venture into the unsecured.

M.B. Mahesh: The question on OPEX?

Sridharan N.: Mahesh, Sridhar here. Vasudevan in his opening remark mentioned that there will be 40 branches will be added. And in addition to this, we will be increasing the sales and collection staff, actually, which will increase the efficiency with the disbursements going up. And with the increments and other things approximately 10% and additional number of employees around 2,000, we will be adding at the year-end totally. So, the OPEX will likely to be 15%, which will be more than the FY19.

M.B. Mahesh: This is mainly to the sales and collection team, not so much on the liability side?

P. N. Vasudevan: Yes. There will be some small increase in the liability, but the major increase really comes on the sales and collection for the assets.

M.B. Mahesh: See the question I am pursuing on the first part on Bhadresh is that since most of the customer segment is quite new, we are just trying to understand that, is there a learning curve across all these products which results in higher credit costs? Hence, we ask those questions.

P. N. Vasudevan: See basically this unsecured BL is a product that is there in the market. But it is we believe that the risk in unsecured BL has gone up very sharply over the last maybe about 4 quarters or 5 quarters. And that is when we really took a call to slow down and then not stop it, which was not the phenomena maybe, I would say, let us say, 2 years back or 2.5 years back. What we see clearly is that the unsecured BL borrowers, borrowers who are borrowing on unsecured business loans for the businesses, we see that the number of straight lines or credit lines for them has gone up very sharply over just the last maybe 4, 5 quarters.

It is really has gone up very sharply. And we kind of felt where that is the first indicator of something which is not very comfortable going forward. And so kind of we took a call in advance of what would be the result of that kind of a practice in the market. We took a call in advance of that. So, that is where basically our approach comes from.

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

Amit Premchandani: You are growing at around 40% plus AUM growth and asset growth, while the ROEs are still at 11%, 12%. So, most likely the capital consumption will remain to be high. So, how are you placed it in terms of capital raise given that you also need to lead the Bank separately and the shareholding of the Bank norms still came too? So, any guidance on capital?

P. N. Vasudevan: See, our current capital cost is around 22%. And if you see our Tier-1 contribution to that, it is hardly much. So, we do not actually foresee a requirement to raise capital from the perspective of funding our assets for the next maybe 3 to 4 years. Even if we assume a growth rate of 30%, 40%, even then we foresee that we may not need the additional capital only from the perspective of funding our assets.

We have enough capital right now, and our Tier-2 capital is not much. So, that is also there is a lot of scope in terms of raising Tier-2 capital as and when required. So, we might end up raising some Tier-2 capital over the next 3 to 4 years. But we do not expect to raise Tier-1 capital over this period of time.

Amit Premchandani: And what is the likely capital consumption run rate on Tier-1, which you expect over the next 3 years, yearly run rate?

P. N. Vasudevan: See right now our Tier-1 capital is around 21% or 22%, somewhere 21%, 21.5%. So, maybe in a 4-year time frame, our Tier-1 might come down. Maybe, I mean I am just guesstimating. You asked me a number, I am just trying to guesstimate that. It may come down to maybe 14% or something in that range.

So, you can then imagine what will be the kind of yearly kind of consumption of Tier-1 capital. But this is just an estimate I am giving you of cuff. So, it is not like something that I am giving as a guidance, just from a very broad perspective.

Moderator: Thank you. The next question is from the line of Saurabh Dhole from Trivantage Capital.

Saurabh Dhole: A couple of questions from my end. Firstly, like we are hearing from many rural focused businesses that there is some sort of tightness in rural area. Just wanted to get some sense from you whether you are getting a similar kind of a feedback from your own loan activities, especially in the MFI business or the other small business loans?

H K N Raghavan: I think from microfinance, I think I will be most specific about the small business loans. If you look at an average ticket size of small business loans it is around Rs. 4 lakhs. And below Rs. 2 lakhs contribute almost towards 75% of our portfolio.

And these are all from the rural and local economy who are dealing with the daily needs. Most of the clients whom we service are on a daily needs kind and they are not probably integrated into a larger economy like, what you call it as an auto ancillary if you look at it there will be a lot of spare parts, multiple products they will do it. But these are not integrated into a larger economy.

They are local economy products. So, the hint is that whatever largely you look at indicators, which is lackness and all, will have lesser impact in this type of segment of clients. So, I have not seen such kind of a slowdown at least.

Saurabh Dhole: Okay. And that also does not reflect on your MFI customers also?

H K N Raghavan: Yes, definitely not.

Saurabh Dhole: Okay and second question is, are there any geography specific issues that you might have observed in the last 3 to 6 months? Is there any stress in particular geographies where you might have suspended or maybe stalled incremental disbursements?

H K N Raghavan: No, not at all.

Saurabh Dhole: Okay and sir just one last question. On Slide #33 where you have given a breakup of, that is the RuPay versus VISA percentage share. I just want to understand, is there a result as a result of this particular mix changing, does that also have an impact on your revenues?

Sanjeev Srivastava: No, it does not have any impact on the revenue as such.

Moderator: Thank you. Ladies and gentlemen, 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 you all for your continued interest in our performance and also for joining the call. We look forward to your continued interest in future also.

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