



“Equitas Holding Update Conference Call hosted by Investec
Capital Services”

September 09, 2019



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MODERATOR: MR. NIDHESH JAIN – INVESTEC CAPITAL SERVICES

Moderator: Good morning, Ladies and Gentlemen welcome to Equitas Holding update conference call hosted by Investec Capital Services. 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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference Mr. Nidhesh Jain. Thank you and over to you, sir.

Nidhesh Jain: Thank you. Hello everyone and welcome to the conference call of Equitas Holding. To discuss the recent communication from the RBI and its implication. We have with us Mr. S. Bhaskar – Executive Director and CEO Equitas Holdings and Mr. P N Vasudevan – MD and CEO Equitas Small Finance Bank, Mr. Dheeraj. M – Head Strategy & IR, Equitas Small Finance Bank, and Rahul R - AVP Strategy and IR Equitas Small Finance Bank.

I would now like to hand over the call to Mr. P N Vasudevan for his opening comments.

P N Vasudevan: Than you Nidhesh. Good morning to all of you. Welcome to the Special Investor Conference Call and thank you for dialing in so early in the morning. As per RBI guidelines for small finance banks, SFBs are required to get their shares listed within a period of 3 years from their net worth crossing Rs. 500 crores and in the case of Equitas Small Finance Bank, the timeline for listing the bank shares was 5th of September 2019.

Equitas Holdings Limited which is a promoter of the bank is already a listed company and owns 100% of the bank. Hence, our intent was to see whether there are any method of meeting the regulatory requirement, but without having two listed companies for essentially the same business. Accordingly, we were in touch with RBI and had return to them during November 2017 requesting approval to merge the holding company with the bank so that the bank gets automatically listed. However, RBI did not agree to this request and of course this was a deviation requires from our side since the holding company being the promoter is required to have 40% of the shares to the bank locked in for a period of 5 years.

We were then trying to work out a path by which we could achieve the bank listing as well as diluting the holding companies stake in the bank by enabling the shareholders for the holding company to directly participate in the bank’s equity. Since we had sufficient free reserves in the bank, it gave us an opportunity to work out a scheme of arrangement wherein the shareholder to the holdco could get an opportunity to participate directly in the bank.

Accordingly, we worked out a scheme of arrangement under which around Rs. 892 crores representing the share premium and the other reserves and surplus and P&L account as of March 2018 was to be capitalized and shares issued to the shareholders to the holding company for no cash consideration in proportion to their holding in the holding company. This scheme would result in 47% of the banks share being held by the shareholders of the holding company. After the Board’s approval of this scheme on 1st of February 2019, the scheme was submitted to RBI and the stock exchanges on the 7th of February 2019. Since the intent is to list the shares without doing an IPO but through the scheme, this needed specific approval from SEBI before we could

file the scheme with NCLT for approval. The current guidelines of SEBI does not cover the exact scheme of arrangement as we are proposed and hence, it was an approval that we had sought from SEBI as a deviation approval from their current guidelines and we sought this basically because the scheme is being put up only for the purpose of benefitting the public shareholders for the holding company and also it will enable the bank to be in compliance with the RBI guidelines.

Post-SEBI approval we would need to file the scheme with NCLT requiring approval from NCLT, shareholders, creditors, etc., and is typically 5 to 6 months' process to get the shares listed through this route. We have been in touch with RBI over the last many months continuously informing them of the status of our scheme. As on date we are awaiting feedback from SEBI for our application for the scheme approval. If SEBI approves our scheme of arrangement, then we would proceed with our application to NCLT. On the other hand, if our request is not approved then we would take immediate steps for doing an IPO of the banks shares and get it listed which is what one of our peer small finance banks Ujjivan has already done. In either situation we believe we should be able to get the shares for the bank listed within a period of 6 months.

At Equitas, we have always set high benchmark on ethical standards. Equitas is a Latin word meaning equitable which means being fair and transparent. We always ensure that everything we do is absolutely fair and totally transparent to everyone we deal with and of course our commitment to compliance with regulatory guidelines goes without saying.

There are no promoters in Equitas Holdings and all shareholders are only public shareholders. We have tried our best to complete the listing of the bank in a manner which is most beneficial to the public shareholders for the holding company. We genuinely believe that we would get the initial approvals for the authorities for the proposed scheme of arrangement and list the bank within the time applicable to us. However, there has been delays and our timeline has already crossed for the listing of the bank shares.

At this point in time we are still hoping to get a very early revert from SEBI to our scheme and based on whatever be the nature of revert from SEBI, the appropriate process would be set in motion by us and from then on as I mentioned earlier it is a matter of 6 months by which hopefully the bank shares should get listed.

So that is it from the opening remarks from our side. Thank you all for your patience and we will be happy to provide any clarification that you may seek.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question from the line of Praful K from Pinpoint Asset Management. Please go ahead.

Praful K:

Just couple of questions first has there been any communication from RBI on the reverse merger any update in our guidelines there to the company or the promoter?

P N Vasudevan: So we had written to RBI for the reverse merger and we had even asked them that can they approve it with effects from the fifth year ending which is in our case September 2021 and they had come back to the saying that we need to apply to them at that point in time for them to consider it because it depends on the regulatory comfort as at that point in time. So, at the end of fifth year we will have to go back to RBI for a reverse merger and if they approve it then we should be able to merge the holdco with the bank at the end of the fifth year.

Praful K: And secondly on this scheme I think given the way that as you said one of listed peers have already filed for an IPO and still I think the scheme that we proposed investor did not believe it because we actually underperformed the reason is that it has tax implication. So since now SEBI when NCLT and maybe each of the body is taking lot more time so an IPO today could be much quicker process so that business does not suffer in terms of the restrictions put on the banks, so can you comment that what will be the wait period for you before you decide that let us do an IPO and not wait forever for this scheme to be approved?

P N Vasudevan: I think the wait probably more or less is over and we are at the last lag is what we believe. So I think we should be getting a feedback from SEBI anytime now and I think in either which way I think March 2020 looks potentially the date by which the listing should get completed because I think the SEBI feedback should come anytime now and then it is a 6 months from thereon. So, I think by March 2020 it should be completed either through the scheme or through an IPO.

Praful K: Why I was saying that because the valuations today already reflect the IPO is happening. That is the reason I was saying.

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

Dhwanil Desai: My question is so RBI has put the restriction of not opening new branches till further instructions from them, so what is the impact of that on our business going forward. I know that we are only planning to open around 40 branches, so will there be any material impact in our guidance for advances of 35% or if you can throw some light on that?

P N Vasudevan: We have over 600 asset branches which was erstwhile NBFC branches and over the last 3 years we have setup approximately 400 liability branches. So even as it is our branch expansions were more or less in place for sustaining growth over the next maybe 2 years or so. So that is why this year we had sought for and taken approval from RBI for fresh branch licenses of 40 which is really 20 liability branches and 20 asset branches. So, if you look at the network size which is like 400 liability and over 600 asset branches and if you compare that with others banks with similar networks clearly we see that the size both in terms of deposit base and in terms of asset base is very large compared to our current size. So obviously the current network of branches is something which we have to leverage very strongly over the next may be over 2 years to try and reach the level of per branch productivity this should be in line with some of the other banks with similar level of network. So right now our entire focus is really how to continue to leverage our existing investments and if you see our cost-to-income also it is hovering around 68% or

70% it used to be 83% of course earlier it has come down to about 68 to 70% and continuously we will have to leverage our cost which is already invested and grow the business without incurring too much of additional cost to kind of get the benefit of investments we have done so far. So from that perspective if you look at it, it is not really a material thing from a growth perspective over the next maybe couple of years and as I said earlier the we are very strongly of the belief that anyway the listing whichever be the route should get completed in the matter of about 6 months or so from now and hopefully, once we can show to RBI that we have started the process of listing and the action is taken and put in place, we do hope that RBI will hopefully relax some of the regulatory actions that they have put on us already. So that is the situation so we do not think that this will have an immediate effect on our current growth plans, but in terms of the future, once we are compliant within the next few months of listing I think hopefully, we should be having the restriction taken out from the bank.

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

M Mahesh: Just one question what is the current situation with respect to your communication with SEBI and till when are you likely to wait to see a response from them before you try and do the next course of action?

P N Vasudevan: We have met SEBI; we are in touch with them and we believe that response is kind of likely to come very soon. So, I think it is just a question of time and so we do hope that hopefully, within this month the response should come and then we will be on our path to the listing whatever be the route I think it is just imminent or around the corners.

M. Mahesh: And just one clarification let us assume that SEBI does give you a positive response on the process, what would be the next step of action? Is there any other regulator to whom you need to seek clarification before the start of this process?

PN Vasudevan: No if they approve the scheme then we have to file the petition with NCLT and once we file with NCLT then NCLT will order for shareholders and creditors meetings so all those processes will have to go through.

M Mahesh: Just a clarification here is the discussion with the NCLT going to be procedural in nature or is there again going to be a discussion on the process itself?

P N Vasudevan: So normally under Section 230 of the companies act any scheme of arrangement requires NCLT approval and I am just saying normally speaking anything can happen in any particular case but otherwise normally speaking NCLT would convene the shareholder and creditor meeting. NCLT would also it will also forward the proposal to the Company Law Board so all of them will have to approve it. Normally, there is no deviation call as far as our case is concerned in any of this because this scheme is squarely within the Section 230 of the Companies Act, it falls squarely within that provision of that section so there is no deviation approvals as such. The only deviation approval really is from SEBI because we need to get the shares listed without doing an IPO and

SEBI's guidelines do state under what circumstance SEBI will approve listing without an IPO which is really a scheme of amalgamation and reconstruction, but our case is the scheme of arrangement and that is why deviation call from SEBI's perspective, but otherwise under Companies Act perspective it is actually squarely within Section 231. So hopefully, there should be no further issue once the NCLT process gets going.

M Mahesh: The reason why we are asking this question sorry just to add take this a little bit forward is mainly because we are worried that if it goes into the NCLT and the NCLT hearing does not come on time, we are looking for an extended period beyond 6 months so just trying to understand as to when do you put a hard stop on this issue and say that look we have tried our best let us go for an alternative plan out here?

P N Vasudevan: I think that call is as I said earlier we are just waiting for SEBI approval for the feedback and I think it is a question of just a couple of weeks from now I think the hard stop will be there within that period in time.

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

Gaurav K: Are the restriction on new liabilities branches or the restriction is also applicable for conversion of asset center into liability centers?

P N Vasudevan: See as per RBI guidelines for NBFC converted into banks, all the existing NBFC branches will have to be deemed to be a banking outlet within the first 3 years' period of time. So, in our case all our asset branches are deemed to be a banking outlet as of 5th of September that is few days back. So, they are already converted from that perspective, they are now deemed to be a banking outlet. So, there is no further requirement of action either from our side or from anybody side to make them into a bank branch it is already converted based on the three-year timeframe getting over a few days back.

Gaurav K: Also quick comment, NCLT in case of IndusInd bank and Bharat Financial merger took a long time for approval so you think the 6 month which you are saying is enough for the approval of the scheme from NCLT once you receive the nod from SEBI?

P N Vasudevan: I really have no idea the background of IndusInd and Bharat Financial, but we have done this NCLT process twice before in Equitas in 2011-2012 we did it once and in 2016 when we were to form the bank and three, NBFC had to be merged from the banks so we did the same NCLT process. In both situations actually our process was completed under 6 months so that is where basically we are coming from.

Gaurav K: So, March 20 you are reasonably confident that this all would get listed by March 20?

P N Vasudevan: Yes.

Moderator: Thank you. The next question is from the line of Adarsh P from Nomura. Please go ahead.

Adarsh P: Sir, question irrespective of either you list through a scheme or you do a direct listing what I want to understand what is the possibility of the reverse merger specifically given the fact that I believe at least a peers bank been telling that there is some communication received from the regulator that the promoter can exit you know there is some confusion in the FAQs also when the licenses were given, so if you can just clarify what has been the communication on that side because that ultimately will decide the holding discount for the stock?

P N Vasudevan: Yes, actually in our case also the situation is exactly the same as the peer bank and we also have got a similar kind of a communication that we can approach RBI for reverse merger at the end of the fifth year and they will look at that point in time. So, the communication actually is similar for both of us and anyway the guidelines are covering both of us in the same way. So yes, the situation is quite the same for us also.

Adarsh P: Sir, as we stand today NOHFC was not requirement this is just for your shareholding requirement that you all have done the structure, so from the perspective of if you do not need a holding company a promoter can exit after fifth year then logically does not mean either way you choose to list you can like reverse merge? Like I just wanted to understand regulatory or legal impediment you just announcing a reverse merger after the end of fifth year given the fact that the NOHFC is not a requirement like universal bank license at that time?

P N Vasudevan: Yes, you are right actually there is no requirement for SFB to have a NOHFC at all and a few of us in the SFB space had put it up basically because we do not have an individual promoter and so we have to have a promoter entity created which is the holding company in many of our cases. At the end of the fifth year the promoter can exit as per the clarification issued by RBI long time back, promoter can exit in SFB at the end of the fifth year based on the regulatory comfort of the RBI over that entity at that point in time. So it is not automatic so it is not like at the end of the fifth year we will automatically merge ourselves, but all of us need to apply to RBI at the end of the fifth year and based on RBI approval we would then be able to merge it, but technically speaking yes, the path is open to request for a merger at the end of the fifth year.

Adarsh P: Sir in the interim for minority shareholder or investor we still live with the uncertainty, so can one expect any clarity on this part or you have been just told that fifth year come and then we will see or can we expect some clarity because from now to the end of the fifth year any minority investor will still always be living with the uncertainty right, so is there any scope of clarification that can come from the regulator on this behalf?

P N Vasudevan: See, if you look at there is a clarification on the guidelines of SFB issued by RBI if my memory is right it is dated 1st of January 2015 and in that clarification if you look at Clarification #101. It actually very clearly mentioned by RBI there is a particular query raise by somebody specifically on this point saying that can the promoter of the SFB exit at the end of the fifth year and it is a very specific question which is raised by someone and RBI has responded to that very clearly saying that whether the promoter can exit at the end of the fifth year. In fact I have got that in front of me if you want I can read it out “can a promoter exit completely after lock in period of 5 years?” that is the question. Answer – “whether a promoter ceases to be a promoter

or could exit from the bank would depend on the RBI's regulatory and supervisory comfort/discomfort and SEBI regulations in this regard at that time." So that is the response of RBI. So clearly the path is available. It is not a deviation; it is not like something which is not allowed in the regulation and we need to seek a deviation approval. It is clearly something which has been envisaged by RBI right in the beginning and the only thing would be of course the decision point may be based on the regulatory comfort on the entity but minus that the path is kind of envisaged right in the beginning.

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

Digant Haria: I just had a question on the business side I do not know if you are taking that questions today, but just that Q1 was you know a little slow compared to the overall full year guidance that we gave, so do you see things coming back in track in the next three quarters or because the way the economy is overall slowing down we may also need to trim this part of our expectations?

P N Vasudevan: We are not really looking at taking business questions at this point in time because the first quarter results were announced sometime back and right now second quarter we have not started talking publicly yet and so it is not very possible or appropriate to start talking in terms of the second quarter, but I can definitely give you some overall approach from Equitas side very clearly is that one is that our NPA position continues to remain good so obviously the desire to pursue growth is there, but this will always be calibrated, we know the economy, we know the market and everybody knows what is happening in the market and we will closely keep watching things and well our desire to pursue growth is there, but it is always going to be based on how the portfolio performs. I mean that is from a generic statement perspective. I am sure anyway you would know that but I am just still making it from our side that while we do believe that at the end of the first quarter we did mention that we are holding on to the guidance of around (+30%) growth for the year but it is always going to be something that we will keep looking at it based on the market developments. So long we are still comfortable on our asset quality and so long as we feel the customer repayments are not getting unduly stressed then we will continue to pursue growth. Wherever we believe customer repayments are getting stressed and customers are coming under some level of stress because of some external factors, naturally, we will take that into account and accordingly temper our growth. And definitely about a month from now when we are back on the second quarter results, we should be able to give you much better idea at that point in time.

Moderator: Thank you. The next question is from the line of Bani Bajpayee from JM Financial. Please go ahead.

Sameer: Just a quick question on the 'on tap' guideline which RBI had indicated that it will kind of release by end of August, is it clear that even the existing SFBs or entities will be eligible to be considered under these guidelines if there are any changes from the 2014 version?

P N Vasudevan: We will have to see what RBI says when the issues the draft guideline, what kind of wording they put up on all that I mean it depends on that, but normally speaking one would assume that everybody is governed by certain guidelines which are applicable to them and anything which comes up later as a separate guideline may apply only to the future applicants. Normally, it may not apply to the older existing players I mean that is a normal way things happen to my knowledge, but unless RBI's guidelines comes with some comments saying that this will apply to the existing SFBs also something like that then obviously it will apply to us.

Sameer: There is no clarification right now on that front?

P N Vasudevan: No, right now even draft guidelines are not out.

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

Kunal Shah: Just want to get the sense in terms of when are we expecting the approval from SEBI and based on our communication with them what it seems overall in terms of how the positivity of acceptance and in what period if it does not come through would be going for the final IPO or maybe the public offer?

P N Vasudevan: I think you did miss the earlier part of the conversation we had a conversation exactly on the same point. As I had mentioned earlier also we believe that the feedback from SEBI should be coming any time now that is what we really expect and that is what we are looking at it might come anytime now and so we are fairly confident that within the next two weeks or so we should get the feedback and that would then determine the next set of actions for getting the listing done. So, I think it is just around the corner as far as we expect.

Kunal Shah: And since we would have updated RBI regarding the same then what would be the reason for the restriction coming if it was like only one or two weeks away and we would have updated that maybe since the expectation to come in from SEBI then why all of a sudden we are seeing this restriction coming in from RBI?

P N Vasudevan: Definitely we have been keeping RBI informed continuously in terms of the status of the application pending of our scheme of arrangement. We have been consistently informing RBI all through. So in terms of why they have taken this action obviously the deadline is there whatever be the effort from our side, whatever be our level of commitment, whatever be our intent and effort, etc., while that probably is appreciated hopefully, but the reality is still that at the end of it on the due date of listing we have not done it. So maybe I would not really be able to come in beyond that except that of course we have missed the deadline it is a reality, but we have been at it for a long time and there is lot of steps and efforts that we have been taking that is also a reality and so this is an action that we have to take it and try and move it fast from here on and try to complete it as early as possible.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

P N Vasudevan: Thank you all so much and we do hope that some good news is on the way and we do hope that we quickly get this uncertainty out of the way and get into the listing process and complete it as early as possible. Thank you so much for dialing in.

Moderator: Thank you. Ladies and gentlemen on behalf of Investec Capital Services that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.