



“Equitas Holdings Limited  
FY2020 Earnings Conference Call”

**May 16, 2020**



**MANAGEMENT:**

- MR. JOHN ALEX – EXECUTIVE DIRECTOR & CHIEF EXECUTIVE OFFICER, EQUITAS HOLDINGS LIMITED**
- MR. P.N. VASUDEVAN – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, EQUITAS SMALL FINANCE BANK LIMITED**
- MR. N. SRIDHARAN – CHIEF FINANCIAL OFFICER, EQUITAS SMALL FINANCE BANK LIMITED**
- MS. SRIMATHY RAGHUNATHAN – CHIEF FINANCIAL OFFICER, EQUITAS HOLDINGS LIMITED**
- MR. H.K.N. RAGHAVAN – SENIOR PRESIDENT, INCLUSIVE BANKING AND VEHICLE FINANCE**
- MR. MURALI VAIDHYANATHAN – PRESIDENT AND COUNTRY HEAD, BRANCH BANKING, LIABILITIES, PRODUCT, AND WEALTH**
- MR. BHADRESH PATHAK – PRESIDENT, SME BANKING**
- MR. RAM SUBRAMANIAN – HEAD CORPORATE BANKING**
- MR. ALOK GUPTA – CHIEF RISK OFFICER**
- MR. NATARAJAN M – EXECUTIVE VICE PRESIDENT, TREASURY**
- MR. M. DHEERAJ – HEAD STRATEGY AND INVESTOR RELATIONS**



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**Moderator**

Ladies and Gentlemen, good day. And welcome to the earnings call hosted by Equitas Holdings, to discuss its subsidiary, Equitas Small Finance Bank Limited financial performance for FY20.

We have with us today Mr. John Alex – 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 and Vehicle Finance; Mr. Murali Vaidhyanathan – President and Country Head, Branch Banking, Liabilities, Product, and Wealth; Mr. Bhadresh Pathak – President, SME Banking; Mr. Ram Subramanian – Head Corporate Banking; Mr. Alok Gupta – Chief Risk Officer; Mr. Natarajan M – EVP, Treasury; 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:**

Thank you. Good afternoon, to you all. I hope all of you are attending this call from the safety of your home. At Equitas, we have ensured our teams, which can operate from their homes, are encouraged to do so. Almost all of the staff at the corporate office and the central processing centers have been working from home since the end of March. As you all know, this pandemic has opened our minds to this new way of working. And we are seriously evaluating the benefits of work from home, for both the Bank and for its employees in the long run.

Before I invite Mr. Vasu to take you through the Bank's performance, I just wanted to update you on the few initiatives that we took. You all might be aware that Equitas is very strong on the CSR on the social front. Given the fact that majority of our customers are from the lower income households, our CSR teams engaged in skilled training, develop video based easily learnable modules to train small borrowers in making masks, hand wash, door mats, micro green products, which they could either consume for themselves or start selling. These demo videos were sent on WhatsApp to all the women clients across India, both in Tamil and Hindi, to encourage them to make these during the free time available to them. I am really happy to inform that these messages, video demos have gone viral and we are receiving encouraging feedback that many of them have finished product ready for sale. And many have already started making supplemental income.

Thank you. Now I would like to invite Mr. P.N. Vasudevan to provide commentary on the Bank's performance. Over to you, Mr. Vasudevan.

**P.N. Vasudevan:**

Thank you, Alex, for rolling out these initiatives. I am sure the impact is being felt across all our small borrowers. Thank you all once again for attending this call on a Saturday afternoon, and hope you have had time to go through the presentation uploaded on the website. Financial year 2019-2020 was broadly in line with our growth estimates, as we continue to see operating leverage



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playing out. With the same branch network, we have clocked a growth of 31% in advances, 26% in deposits, and our cost income ratio improved by 390 basis points over FY '19. And at PBT before provisions and write-off, we had a growth of 40%. Asset quality has remained steady through the year, with the GNPA being consistent at around 2.8%, 2.9% level, with the March 2020 GNPA coming in at 2.72%.

As you would have seen, we decided to provision Rs. 99.6 crores, which is in excess of the RBI prescribed norms for the COVID provisions. This represents the full 10% COVID provision on accounts which were overdue but not NPA as of 29th February. We are required to make 5% provision in March and another 5% in June, but we decided to make the full 10% in March itself. We would also like to share that out of these accounts, which were in overdue as of 29th February, as on date, around 40% of the customers have completely paid their overdue amount, and another 25% of the customers have paid part of their overdue amounts. All in all, financial year 2020 was largely a good year for us and in anticipated lines, with the exception being the year closing based on the pandemic that have been going around.

The Bank's business has been impacted due to the lockdown since the end of March 2020. And we are yet to resume any meaningful disbursement or collection. However, we have kept most of our branches open during this period to assist customers with their bank related services and have kept our ATMs operational. On the moratorium front, we believe that our customers should conserve cash and ensure they have enough liquidity to tide over this three, four months of lockdown, and also subsequently kick start their business as the lockdown eases out, especially since there is ambiguity on when and how things will open up. To reflect the stance, opting for a moratorium was a default mode that we rolled out. And if anyone wanted to specific opt-out of the moratorium, then they had to contact the Bank.

During the lockdown, our teams have been in touch with our borrowers. And the general sense we are getting is that most of them are upbeat and confident that their small businesses would quickly return to near-normal levels in a couple of months. As you may know, almost all of our customers deal with daily use products and services, which are mostly in the trading and services sector. Also, rural and semi-urban borrowers seem to be less impacted as of now. About 53% of our micro finance and 50% small business loans, and about 20% of our vehicle finance are located in semi-urban and rural locations.

On the liabilities front, we have managed to keep the engine running. Our digital banking products like Selfie Saving and Selfie FD has done really well. And we are able to acquire over 20,000 new-to-bank customers during the month of April. As the lockdown relaxes, the teams will have their hands full, converting them into full KYC accounts and getting them funded in full. We are also working on other tech initiatives to smooth the customer onboarding process. The Bank's liquidity has been stable and our LCR is around 130% level, and we have not experienced any major outflows

Especially, in the beginning of each year we have been providing guidance with respect to advances growth expected for the year. The unmet demand in the segments we deal with remains very high at over Rs. 12 lakh crores as per various government estimates. However, we need to see how the markets open up and how life comes back to normal over the next two, three months. Post that we would get a much clearer idea of our customer's business position. We would be able to comment on growth post our assessment as above.

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

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Manish Ostwal from Nirmal Bang Securities. Please go ahead.

**Manish Ostwal:** My first question on our moratorium data, which is 98.26% on a number of loan basis. So what is the total moratorium in value terms, sir?

**Dheeraj Mohan:** See, roughly on value terms it is about 90% of our advances.

**Manish Ostwal:** Sir, after the 20th April 2020, how has been the collection and disbursement at our branches? Could you talk a little bit about the same?

**H.K.N. Raghavan:** Raghavan here. I handle the microfinance, small business loan and then vehicle finance portfolio. April month was a complete washout, and no establishments were asked to open and then the staff was not able to freely move. Hence, the month of April was no disbursements at all. And as you know, microfinance, it's important that you run a center meeting and you have to gather people, so that's against the social distance norms. And vehicle finance, all the RTOs are closed, there is no transactions there. And business loans, which is a secured loan, all the services are closed. So no ecosystem was also functioning.

**Manish Ostwal:** And lastly, recently government has taken certain measures with respect to MSME and the agricultural segment, how do you see those measures will impact our customer segments and do you see material positive impact in those segments? Thank you.

**H.K.N. Raghavan:** See, basically out of our total portfolio, we assume that close to Rs. 5,500 crores falls under this particular segment. And we have to actually wait for the fine print to come again as to how it's going to get executed. Then we will see which are the segments that go to really benefit out of it, and then we will kind of roll it out to the clients, and wherever it is kind of applicable and it is possible.

**P.N. Vasudevan:** See, basically, the government has announced various schemes. One is this Rs. 3 lakh crores guarantee scheme, 100% guarantee scheme for MSME loans. Existing customers where a bank gives 20% extra loan which is secured 100% by the government, guaranteed by the government. So, we just kind of looked at our data and approximately around Rs. 5,500 crores worth of loan

customers would get covered under the Rs. 3 lakh crore guarantee scheme. So, effectively if we are going to give up to a 20% extra loan to them, that will be 100% secured or guaranteed by the government. Now, I think SIDBI is the agency through which this is going to be rolled out and they have set out a discussion paper. So we are just awaiting details in terms of final terms of what will be the term. And then basis that we will have to see whether that is something which we can roll out to our own borrowers and then take it from there. So that is one which the government has rolled out which could potentially benefit a lot of customers. Second thing is that they have rolled out interest subsidy for both microfinance borrowers that is at than Rs. 50,000 loan borrowers, and also for street vendors, they have rolled out an interest subsidy for street vendors. Now less than Rs. 50,000 means practically all our 100% microfinance clients would stand to benefit from that. So as and when the norms are finalized by the government, we should be applying to them and getting that interest subsidy which we will pass on to the borrowers, to the microfinance customers. And after the street vendor's subsidy is concerned, again, most of the microfinance customers and some of our small ticket LAP customers are people who potentially are street vendors. So we will have to again wait for the details. But as and when that is rolled out, again, we believe large part of our microfinance, small loan borrowers could potentially benefit from that. So there are a lot of things which the government has announced and practically most of our customers should be kind of be in a position to avail that. So our task for the next maybe a month or so would be to ensure that all of our customers get the full benefit of the various government schemes. Thank you.

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

**Nidhesh Jain:** Sir, how are you thinking about the credit cost for next year? When you look at your portfolio which customer segments within each portfolio is the most vulnerable because of COVID-19 and lockdown? And how is the contactability of the customer, what percentage of customers you have been able to contact in the month of April. So any colour which can help us in terms of estimating the credit cost outcome that we can see because of COVID-19?

**P.N. Vasudevan:** Yes. So, as far as the credit cost is concerned, we will have to wait for some more time. I mean, today at this point in time if I have to hazard any guess, it will be just a guess and it will not be backed by any kind of ground level reality or a feedback. So, it is not appropriate to make guesses at this point in time. We just need to wait for maybe another two months or three months and then we will have a much better idea of how the whole thing is kind of opening up. And basis that we will be able to take some assessment of credit cost for the year. As far as contactability is concerned, yes, we have been getting in touch with customers. We were in touch even during April, a lot of telephonic dialogues were happening with our customers. So I will just request maybe Bhadrash and Raghavan to respond in terms of how much efforts are put so far on contacting customers and what's the kind of feedback they get from customers.

**H.K.N. Raghavan:** Sure, Vasu. I will just go through the microfinance. During the month of April or even end March itself, almost all the centers the branches and the relationship officers are in touch with them, primarily telling them the safety measures that they have to take and also kind of explaining them



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the moratorium benefits. So almost all, 100% of the centers, they are all kind of in touch with them. As I speak, there are some of the center's post May 3rd some kind of restriction and relaxation in some of the zones and we are able to kind of physically conduct, also with all the social distancing norms and about 60% of the center meetings. And more or less, microfinance if you look at it, the clients are very confident to bounce back because they are all kind of a wage earners and they are into informal economy, and 50% of them, as Vasu was talking about, live on livestock as well as farms, they depend upon those areas. So cash flows, it will also drive fast, but will also kind of recoup faster as far as microfinance is concerned. So that's the brief about microfinance. And then again, if you look at it, it's not something that they haven't gone at all through these kinds of turbulent times. They always go through the floods or cyclones and they are all used to it, they always bounce back, in the past if you go about, it will always bounce back.

Second is, as far as the small business loans, individually at least I was able to catch up, some of the clients personally. So I was speaking to some of the clients to say about, one, as for us provisional stores is concerned and bakeries are concerned, they are running, except in kind of zones where in the areas where the lockdown is there. Otherwise, they are kind of operating with timing restrictions, about till half a day and all. So their activities is going on, right. And second, we have personal contacts with like hair salons, salons and men's spa and all. They are confident that ultimately what they say is that ultimately they have to come back for a haircut, hairs will keep growing anyway. So the only thing what they are saying is that initially people might fear to come, but what they are saying is that they are also going to take safety measures like sanitizing the place and people using much more hygienic, and probably they are talking about removing a chair in between. If there were four chairs, probably they will run with a three chair saloon and all. So I think they are also aware that what are the days going to come and then how they are going to respond and change the way they were doing business. And they are very, very confident that things will bounce back and then they will on that. But the kind of a roaring way that they used to do, but that will happen only when the vaccine comes. But otherwise they know that the life will go on and the business will continue to happen. And some of the tea joints and restaurants and small joints which we are talking about, they are slightly apprehensive that people from an eating perspective, from a habit perspective, because generally you go towards a tea stall or a snack stall and when people meet together or go out, that they say that is likely to impact, they say that they have to wait and see how things will unfold. And vegetable vendors and fruit vendors are kind of clearly that their business is on even today. And some of the livestock based and milk based kind of businesses which we have spoken to, they are running as of now. They are only complaining about interrupted lockdowns now and then, but they are quite confident that they will be able to pull back. So, by and large if you look at it, all these people who deal with the regular items and basic local ecosystems which they are dependent upon are very confident that they will be able to come back. This is as far as the small business loan is concerned.

Coming back to vehicle finance, I think vehicle finance, if you look at it, anyway there was a downward cycle us before COVID if you look at it. And amongst the vehicle businesses, because of this GDP growth, you know that auto is in stunted growth, and that growth ultimately will



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impact the long haul trucks, which is basically used heavy commercial vehicles. So long haul had got impacted, which we realized somewhere in the second half of last year itself. And then we really made corrections in our product mix. And we kind of upped our game in terms of assessment of the heavy commercial vehicles, we kind of reduced the LTV and we wanted to bring in more equity into that particular segment and we tightened the credit norms. So, that was kind of put in place, hence we also know that heavy commercial vehicle is going to get impacted. And then we started focusing more on the LCVs and HCVs which are basically short haul and which depend upon local economies, say, from 50 kilometers to 300 kilometers. And this heavy commercial vehicle and that segment could be under stress certainly because if you look at it, in the last two and a half, two months, the supply chain is broken, you take any industry for that matter across the state, the supply chain is broken. That supply chain to restore again will take some time, not have to guess how much it will take time but it take time, then only the long haul trucks will kind of serve. But anyway, we have kind of cushioned our strategy in terms of product mix, we are focusing more on LCVs and smaller commercial vehicles. And so that particular segment amongst the three businesses could see some kind of a stress which is going on.

Bhadresh, over to you.

**Bhadresh Pathak:**

Okay. See, as far as working capital to MSME borrowers is concerned, it's a new business, it's about one and a half year old vintage. We could contact each and every customer, all the 800-odd customers that we have, we have been able to contact them. We have been able to study the impact of COVID on the entire portfolio. And what we have to report is that there are certain customers who have been positively impacted also. They are primarily into the businesses like healthcare, pharmaceuticals, essential items, and so on. So about 16% of our customers have been positively impacted, the vast majority of the customers they are in the lockdown, about 66% of these customers are kind of neutral, they will bounce back once the economy reopens, once the lockdown gets over. A certain number of customers like 17% to 18% have been a little negatively impacted, mostly they were into little heavy industries or something like that, which was labour intensive and they have been impacted. So we are in touch with all the customers, we don't see much of a negative impact as of now. Although once the lockdown gets over completely and things come back to normal, we will be able to know more about this. But as of now we don't see much of a problem in the small portfolio that we have created so far.

**Nidhesh Jain:**

Sure. Just a clarification on microfinance, you said that 60% of the centre meetings are happening?

**H.K.N. Raghavan:**

60% of the center meetings we were able to kind of do it, that's after post May 3rd in a staggered manner, we have reached that 60% in the last couple of days. Because May 3rd the zones were very clear, some of the rural areas we were able to do work. So wherever the branches are open, we are able to kind of connect almost all 60% of the meeting. The center meeting attendance could be 40%, 50%, but the communication is on. So that is very critical as far as the microfinance is concerned.



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**Nidhesh Jain:** And sir on the small business portfolio, what would be the approximate share of tea joints and restaurants where there could be a negative impact?

**H.K.N. Raghavan:** That classification, I should be able to get back to you on that.

**Nidhesh Jain:** And lastly on the vehicle finance portfolio, what would be the share of heavy commercial vehicle which you said that could be under...

**H.K.N. Raghavan:** See, heavy commercial vehicle portfolio is around about Rs. 1,517 crores which will be 10% of the total portfolio.

**Nidhesh Jain:** And just last question on operating expenses to Vasu sir, how do you see the operating expenses for next year, given that that is the only thing that we have under control? Apart from that, most of the metrics we don't know how the things will pan out in FY21. But on operating expenses, what are the initiatives that you are taking and what is the view that you are taking on operating expenses?

**P.N. Vasudevan:** Okay. So the operating cost is something that definitely I am sure everybody will be focusing on. But in our kind of scenario, our salaries and rentals forms are most substantial part of our operating expense. And these are kind of fixed, so they are too variable with only a very little part of it being variable. So we are not going to see a dramatic change or dramatic impact on our cost, that's for sure. But within that, there is a lot of effort to try and save cost, one, in terms of the travel and conveyance, I think that is going to be significantly down for the year, there is no doubt on that, that it will be substantially reduced on terms of travel and conveyance. Second thing is in terms of our work from home concept, people are now very comfortable with the concept of work from home, and lots of us are more productive from home than what we have ever been at the office. And so whether that will be able to translate to surrender of some amount of office space, whether the benefit will actually come in the form of surrendering office spaces is something that we will be working on. These may not come in the immediate term because there will be some rentals locked in and things like that. But I think in the medium term, there should be some benefit in terms of work from home. And the objective for us is to say that how many of our staff can permanently work from home, irrespective of the vaccines coming in. Permanent people can actually permanently work from home, don't have to come to the office and I don't have to provide an office space for them. So that is a project that's currently underway. Benefit won't be immediate, because there will be some signed locked-in rental agreement. But the benefit should probably come over the medium term. So there is a lot of effort on digitalization in terms of trying to cut further the operating processes and manual processes, work from home in future trying to reduce the amount of office space we occupy and things like that. So we will have to see, some of this will lead to some immediate and some will lead to medium term. But I don't think, I mean, honestly speaking, I don't think we are going to be able to substantially cut the cost, because substantial part of the cost has sort of fixed type.





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**Moderator:** Thank you. The next question is from the line of Aarsh Desai from Vallum Capital. Please go ahead.

**Aarsh Desai:** Sir, my question was with relation to the microfinance borrowers that we have that have a bank account opened with us. What is the situation of the balances that they are carrying in our accounts right now? And also with regards to that only, how many of these accounts are Aadhar seeded accounts where government DBT transfers happen, and what is the situation there?

**H.K.N. Raghavan:** This is Raghavan again. See, from the beginning what we have done is that, initially when we started looking at opening accounts for our clients, Jan Dhan had actually taken a lead and then, in fact, there were many clients who were without a bank account. So what we did was instead of creating a lot of duplicate accounts, we were kind of opening the bank accounts only based on the demand of the customer. So for example, if she or he doesn't have a bank account, we would say, okay, fine, we will do it. But as of now, the 100% disbursement that is happening through bank, but it's happening in other bank accounts and ours is very, very miniscule. So we would not know exactly what would be the balances.

On the RD front if we look at, we have close to 3.5 lakhs customers out of, say, 2 million customers who are regularly paying RD, which are on an average this Rs. 200 per month. And as of now, roughly around Rs. 45 crores of RD has been created. And more and more customers are looking at opening up the RD, it will only increase. And this has got a very good traction as far as RD is concerned. The one more salient feature is that, even despite these kinds of difficulties which they are going through, they don't want to withdraw that money, that's actually surprising for us. We were just thinking that people would say, okay, fine, let me draw that money. People are really now happy that they are saving and they do not want to draw it, it should be rather drawn only in the last resort. So that's actually kind of a very positive feeling and it gives us immense satisfaction.

**Aarsh Desai:** So my question was on those lines only, of course, there is no lien on the money that they are kind of giving in terms of RD, but in terms of safety, what would the average balance that these RD accounts would have in terms of EMIs that these customers have to pay?

**H.K.N. Raghavan:** See, today it depends upon when they have started. Let us say the best RD account would be roughly around Rs. 1,500 to Rs. 1,800. So ultimately when you look at it, at least they are one EMI. So, generally what happens is that, okay fine, whether to draw that money and take it? See, from a positive perspective also, to give the confidence and trust to the customer, is we have not marking any lien on these particular RDs, that actually will defeat the purpose. So we were very clear that there has to be a trust. If you have to create a trust, then we can't mark a lien for Rs. 40 crores and lose out the customer trust. Very important is that in a long-term we need to have customer trust and it's the responsibility of the bank to create trust among the clients.

**Aarsh Desai:** And my other question was with regards to the number of customers that have taken moratorium, especially in affordable housing and CV. The percentage is substantially higher than the industry, is any particular reason for this?



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**P.N. Vasudevan:**

See, in our case, our type of customers and the type of loans that they give is quite distinct from probably what happens in the market. We don't have any consumer loans at all, we don't give personal loans, we don't give two wheeler loans, consumer durables loans, travel loans, holiday loans, medical loans, we don't have any of the consumption of that loans. All our loans or livelihood loans. In addition, 5% of our loans are to NBFCs and 5% is for the MSE customers. The balance 90% of our customers are in the informal economy space. And for them, practically almost all these 90% of our borrowers, we are the first bank to lend to them. And so like Raghavan was saying, there is a lot of trust that has developed between us and our borrowers. And these customers or the type of businesses they run is also small, whether it is a grocery store they run or used commercial vehicles they run, it's all very small. And they don't employ outside labour, they do it themselves, whether the guy driving the vehicle by himself or the people running the business by themselves. So it's a kind of a family led business, and they are too small to even employ outside labour and things like that. And for them, almost all of them we are the first bank to have actually lent money to them at all. So there is a lot of relationship that has been built with these customers over a period of time. And that is why when we rolled out our moratorium, we took the route that we will make it automatically available to everybody. And only if they don't want it, they need to come back. So our message to the customers are also very clear that we don't want you guys under pressure of repayment during this time, make your choice. And if you are comfortable, then just take the moratorium and tide over the three months. And after the moratorium when the business is coming back, we will always come back to you and we will get back to our normal schedule. So that is our communicational message to all our customers. So we consciously went with this objective that this is the time when we hand hold and support this to borrowers, because almost all of them, even our commercial vehicle, for example, is only a driver turning owner kind of a profile. So across the board, our approach has been how to support and hand hold rather than to see how to get the maximum money out of the customer in the current situation, that is not our approach.

**Aarsh Desai:**

Correct. Perfect. So just with regards to that, do you think there is any risk to our portfolio, in the sense that if one customer has two accounts, say, with Equitas and with another bank, and he has availed moratorium with you all, the disposable income that he has to kind of pay off the loan with the other institution that he currently owes and Equitas.

**P.N. Vasudevan:**

Okay. See, if you look at our small business loan, which is about 40% of our portfolio, almost 98%. If you just for a minute if you remove gold loan, almost 98% of our borrowers, we are the only lenders to them, they have no other loan from anybody else. And if you take my used commercial vehicles customer base, about 80% of our customers, we are the only lenders to them, there is no other lender to them at all. So that's what I said just slightly earlier also that we enjoy a very high level of emotional connect with our borrowers because we are the first and the only banker to be with them. And so that is the situation that we are in.

**Aarsh Desai:**

Perfect. And just one last question from my side before I rejoin the queue. Sir, if you can just give some sort of data in terms of your MFI and small business customers who actually have been able to do no business during the lockdown like an approximate percentage?



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**H.K.N. Raghavan:** That's a bit difficult to answer. Because the thing is that, how many people are in essential, especially if you look at it, even you were asking about vehicle finance and all, there is a fungibility as far as vehicles are concerned, today he will run essentials, tomorrow he will run something else, it's very difficult. And as far as the microfinance is concerned and little business is concerned, it's a bit difficult, because it is a large number and it is a family income and family will have multiple livelihood activities.

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

**MB Mahesh:** Three questions from my side. You had indicated in the call that the total refinancing amount available for your portfolio is about Rs. 5,000 crores. Wanted to check how did you get to that number? Second question on the collections part, I just missed that part, if you could just qualitatively say how is the May collection as compared to April collections?

**P.N. Vasudevan:** Okay. The first question which is Rs. 5,500 crores, what we are trying to communicate in that was that all the customers who have that Rs. 5,500 crores of loans from us, they are technically eligible for this 20% extra loan which is guaranteed under the Rs. 3 lakh crore scheme of the central government, that is what we are trying to communicate. Which means that Rs. 5,500 crores of loans, we will be in touch with the customers with respect to those particular loans. And if they want additional loan at this point of time, up to 20% of the earlier loan, then we could provide them and that loan, if we do provide, will stand 100% guarantee by the government and the customer also will benefit. I mean, these norms are not yet finalized by the government, they are talking about a four year loan, one year moratorium, something like that, but these are all still in a discussion stage. So we will have to await the final guidelines from the government. And once that comes in, then we will look at the guidelines and see whether, one, that fits with our own requirements; and two, whether it fits the customer requirements. And if it matches both, then we will be able to go ahead and offer that guarantee loan to all our borrowers who comprised of Rs. 5,500 crores. That is what I meant by that.

**MB Mahesh:** One clarification on that, when you came out with this number of Rs. 5,500 crores off your AUM's of about Rs. 15,000 crores, just wanted to understand, how did you come to that number? Which products have you included?

**P.N. Vasudevan:** Basically, it's all what is classified as MSME in our books. So, for example, we have I think about Rs. 5,000 crores of loans, which are less than Rs. 10 lakh, which are secured by a house property, which is our small business loan, that M-LAP and all those small ticket loans. Now, that is not classified as a MSME in our books because these are individual loans given against the security of a house property. And so they are not classified as loans and we take a security against that. Whereas if for MSME loans less than Rs. 10 lakhs, security is not permitted. So, these are not classified as MSME, nor do we get the PSL benefit for those loans. See right now, as I said, the final guidelines of our government are not yet released, but technically we are assuming that only



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loans which are classified as MSME in the books of the Bank would be eligible. Under that assumption, Rs. 5,500 crores of our loans are currently classified as MSME loans.

**MB Mahesh:** And vehicle comes under the classification?

**P.N. Vasudevan:** Yes, it does.

**MB Mahesh:** Okay. That's useful. The second question with respect to the collections.

**P.N. Vasudevan:** Yes. So how is the collections in May compared to April? As Raghavan mentioned sometime earlier, April collection was really not much, very, very little because there is no movement and everything was locked down and all that. So I mean, still somebody paid here & there. So some little bit of collections did trickle in. But frankly, it is not much. In the month of May, again, actually we have started sometime by the 4th, 5th of May, because from 3rd May lockdowns were opened up in some parts of the country and people have slowly started coming out and calling up customers, meeting customers and all that. So the collections in the month of May has actually increased, obviously, it will increase. And every day we are seeing a better trend, every day the collection is more than the previous day. So the trend is slowly coming back. But again, don't ask me for a percentage, it's still too small. It's still definitely too small. But at least the trend is that the collections are increasing on a daily basis. But we will have to see, because 17th of May there is the next phase of opening up by the government and then maybe 1st June there will be another set of opening up. So all of this will probably lead to a better momentum as we go forward.

**MB Mahesh:** Perfect. And just one qualitative question. Do you think that when you look at your base, both on the MFI side as well as in the MSME side, do you need to inject a fair amount of disbursements back to these borrowers? Because we understand in MFI, a lot of players are talking about giving some form of short term loans to kind of restart the entire business. How are you seeing in your portfolios?

**H.K.N. Raghavan:** See, basically, I think, again, especially the microfinance and small business loans, thanks to the previous experiences where these businesses definitely require the kind of injection in terms of the working capital to kick start the business. So what we have launched in microfinance is called basically bounce back loan which is called as Vishwas Loans. So, basically what we are saying is that, okay fine, to pick up and then start the businesses, we are working on Vishwas Loans, which will kind of bridge the immediate requirement for them. So, those loans have been kind of being offered to the microfinance customers. And also some of the customers whose kind of instalments fall due one or two instalments there, we can look at a top-up loan, we have already started information to them. And the moment a lockdown opens and we are able to visit, we should be able to start disbursement for these customers, And it's very, very important, again, as I said in the last question also while answering, it's important that we kind of move ahead and then show that, no, we have trust in them. That's very critical as far as microfinance is concerned. Coming back to the small business loans, again, yes, during the lockdown in the last 15 days also most of the customers we are able to get in touch with. And we have been able to get in touch with 100% of

the customers. In that, while you are getting in touch with the customers, some of the customers have also come back and then said they would like to have a top-up loan and then we have kind of processed it. And once the lockdown opens, if you are able to open the branches, I think the disbursement should start for those customers also, which will help them to kind of pick up their strengths again.

**Moderator:** Thank you. The next question is from the line of Shiva Kumar from Unify Capital. Please go ahead.

**Shiva Kumar:** Sir, just a couple of questions on the asset side. What is the outstanding of the unsecured business loans currently? And what are the provisions against that?

**Bhadresh Pathak:** Okay. The unsecured business loans we have stopped long back, and the principal outstanding is coming down. As on date, the unsecured business loan would be about Rs. 160-odd crores.

**Dheeraj M:** So the outstanding is Rs. 153 crores and Rs. 42.53 crores is the NPA with Rs. 25.63 crores of provision.

**Shiva Kumar:** Sir, and on the corporate loans, I see that currently the GNPA is zero. What is the sense you are getting? Because you must have given loans to some of the emerging NBFCs who might find it getting difficult currently. So what is the feedback you are getting from that side?

**Ram Subramanian:** See, basically we have been lending to predominantly NBFC which are in the near family. And fortunately, our experience with them, with all of them has been fairly very good. And that's the reason we are able to see such a signal because almost the overdue from that portfolio is almost nil.

**P.N. Vasudevan:** And these NBFCs that we lend to, one, of course, is the one that we will know them for a long time, personally the promoters and all that. Second thing is that all of these NBFCs have been doing very well and they have been highly capitalized, highly capitalized, and they have been getting a lot of support from their PE investors. So almost all the cases that we have funded, whether it is NBFCs or HFCs, their capital adequacy will be in excess of 30%. I mean, 30% is more or less like the minimum that any of our borrowers would have, some of them running into much even larger number, but highly capitalized. So, those are the comfort that we derive from that particular book.

**Shiva Kumar:** Sir, and the Rs. 5,500 crores for which you expect the government support, that does not include the SBL loans, right?

**P.N. Vasudevan:** See, small business loans at 40% comprises of three segment categories, one is less than 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 categories within the SBL loans. Now, out of these three categories, the Rs. 10 lakhs to Rs. 25 lakhs comes under the MSME definition, and gets covered by the Rs. 5,500 crores. And that



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Rs. 10 lakhs to Rs. 25 lakhs is approximately about Rs. 1,000 crores. So, out of Rs. 5,500 crores, approximately Rs. 1,000 crores represents Rs. 10 lakhs to Rs. 25 lakhs which comes under the category of MSME. The remaining small business loans which come below the Rs. 10 lakhs are not categorized as MSME and so they are not part of that Rs. 5,500 crores.

**Shiva Kumar:** Okay. Sir, one last clarification on the vehicle finance segment. How much would be MHCV out of the Rs. 3,760 crores?

**H.K.N. Raghavan:** Rs. 1,500 crores is heavy commercial out of the Rs. 3,700 crores of total CV.

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

**Jehan Bhadha:** Sir, in our press release it is mentioned that MFI portfolio, almost 67% of it is in red zone. So, how are we positioned to start the operations again? And second question, similarly for the whole portfolio, how much of the portfolio is in the red zone?

**H.K.N. Raghavan:** See, basically what happens is that if you look at the total category, it is slightly dynamic. What was on May 3rd, because the category keeps changing, and currently the last count all India if you look at it, 11% is in green zone, 44% in orange and 45% in red zone. So, what happens in red zone, I will tell you. As a bank we are authorized that we are allowed to open our branches. And within these red zone and some of the areas there are moments are there, some areas there is no complete movement of people also. So, in that sense, and during even when the lockdown was there, they are always connected to our customers through our phones and that have kept them connected. So it doesn't matter whether it is a red zone, orange and green. But I think once the lockdown opens up, I am sure all those zones will have some kind of a moments that's likely to happen. And as I said, again, 50% of our branches are located in semi-urban and rural areas. And there we see a greater relaxation coming in, and we should be able to move around. As we speak, even the farming activity is anyway continuing. And the other thing is there are panchayats also, they are also kind of strictly kind of monitoring who is coming, who should come, who should not come, all those things will get kind of relaxed over a period of time, and then that will happen sooner in the rural areas. And again, if you look at it, even urban area when I say urban branch, it is a branch location. And we cover close to 30 square kilometers. So it's not that if it is urban, 100% is urban, some rural is also there in the urban branch areas.

**Jehan Bhadha:** Okay. And one more question is on, if you can clarify this MSME credit guarantee scheme, does that include CV loans as well commercial vehicle loan?

**P.N. Vasudevan:** Yes. It does.

**Jehan Bhadha:** So your figure of Rs. 5,500 crore includes CV loans as well?

**P.N. Vasudevan:** Yes, it does.



- Moderator:** Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.
- Jai Mundhra:** Sir, a question once again on CV to be included in this Rs. 5,500 crores, is there any condition, like you mentioned that you mentioned that in let us say less than Rs. 10 lakhs could not be included in MSME. So even if the person has taken individual loan for individual truck, would that be included in CV or there is some conditions there?
- P.N. Vasudevan:** See, in CV, all of the CVs, except fleet operators, anyone who is a large fleet operator will not be included as MSME. But otherwise, all CV customers including a person who has taken one vehicle with, let say, Rs. 2 lakh or a Rs. 4 lakh funding, they are all part of MSME definition. Only thing is that the LAP loans that we give, less than Rs. 10 lakhs, that is not classified as MSME because there is a security that we take. And for getting the benefit of PSL and MSME categorization, you are not permitted to take security, whereas we take collateral security. So, they are just individual loan against the property, it is the LAP loan.
- Jai Mundhra:** Correct. So that kind of conditions are not there in CV
- P.N. Vasudevan:** We do not have any collateral, there is no collateral security.
- Jai Mundhra:** And sir, in your experience, have you ever claimed the CGTMSE guarantee earlier? I mean, just wanted to check how difficult or easy would it be to claim government guarantee?
- P.N. Vasudevan:** Bhadresh, can you take that?
- Bhadresh Pathak:** So in our portfolio we have one account which has turned into NPA, and we have intimated the CGTMSE. There is an 18 months window from the date of disbursement after which we will receive the 75% claim. So there is only one account in the Equitas experience so far.
- P.N. Vasudevan:** Can you talk of your past experience, Bhadresh, in terms of how efficient CGTMSE is in claims settlement.
- Bhadresh Pathak:** Yes. See, the bank has to establish that the account has gone into NPA was not a fraudulent account. They have to file all the types of cases, which are permissible against a borrower and they have to prove that they have made all efforts to recover it and give the data to the CGTMSE. And then they process the claim. We have not seen the rejection of the claim if the account is genuine.
- Jai Mundhra:** Sure, sir. That's helpful. And sir, two more things, you mentioned that as on date 40% and 25% have partly or fully repaid, is that the value or volume?
- P.N. Vasudevan:** Value.



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- Jai Mundhra:** Sure, sir. And just last thing, sir. I mean, in these three months of moratorium on an MFI borrower, they are being charged interest or for they are not? And is there any request from them to sort of remove the interest or something?
- P.N. Vasudevan:** No, they are not serving interest. Now obviously, we are not even conducting group meeting, so no monies are being collected. And money collection will happen only from 1st June when post the moratorium a period is ended then only we will start. As Raghavan mentioned earlier, we have started conducting group meetings wherever the lockdowns are being opened up, we already started conducting and I think Raghavan did mentioned something like about 60% of our center meetings are now being conducted. And but in this meeting we do not make any collection of money, it is more of communication in terms of safety steps they have to undertake and things like that, and also communicating that up to May they have the moratorium and payments till they reach end of June. And also assessing what is their impact on their own individual businesses, so our staff were assessing that and they are putting up in terms of who is affected in what way and does anyone need an extra loan now or they do not need, all that is being done right now. We are just doing a lot of meetings and gathering there.
- H.K.N. Raghavan:** And also Vasu, in these cases the center has also talk about what is the Vishwas loan they require, which is also kind of also get to know. Because very important is that the moment you meet up, that is where the confidence builds up and then there is an urge to kind of lend. So they assess this impact and then they work out on the Vishwas loans.
- Jai Mundhra:** Okay. Sir, just a clarification. There is no request from them to wave the interest for this period, right?
- P.N. Vasudevan:** No.
- H.K.N. Raghavan:** No, not at all.
- Moderator:** Thank you. Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir, I just wanted to understand, now since your moratorium is ending on 31st of May, so basically, the slippages or the provisions that you might need to provide will majorly come in the second quarter or will it slip into first quarter as well? So some understanding on those front will help.
- P.N. Vasudevan:** See, first quarter the slippages are likely to be either nil or very close to that, because it is only that February overdue account which can potentially become an NPA in June. And out of February overdue also it is a 60 to 90 bucket, anything which is in the 60 to 90 bucket could potentially become NPA by end June if they do not pay up in June also. So then you are talking of a very small universe per se, per se your universe itself is very small. And out of that, I am





sure, many of them will end up paying. So we do not really expect too much of slippage in the first quarter.

Now coming to the second quarter, yes, so there we need to see what is going to happen because all EMIs will start accruing from June. So it is the four month, June to September is a four month period. So out of that four month period, how many will not pay, three months; how many pay only one month or pay even that one month will determine your slippage for the September quarter. Yes. So we will have to really look at the second quarter. I think the first quarter is more or less taken care of. But the second quarter is going to be the challenge and focus. And I think that is a focus is going to be. From 1st of June that focus is going to be September closing.

**Deepak Poddar:** Okay. So basically second quarter is when we will get to know the real picture. Is there any possibility of that slipping into third quarter as well? Or second quarter 100% of whatever the scenario will be, we will be able to see?

**P.N. Vasudevan:** Yes. I think second quarter will be a determining quarter because, as I said, June to September is a four EMI period. Out of four EMI if somebody has paid at least two he remains as a non-NPA, correct, as of September end. So if a guy is going to pay to two EMIs between June to September, then his intention is very straight, and his intention is very clear. And then there is a probability of him not paying subsequently is not very high, because by September, by October, definitely from October onwards the life should only become more and more normal. So, when he is able to pay two EMIs between the period of June to September, there is no reason why he would not either be able to or not wanting to pay from October onwards. So I think the third quarter onwards should become COVID impact. My belief is, it should not get reflected in the third quarter onwards. The second quarter is, I would say, the quarter of test.

**Deepak Poddar:** And so for the credit cost in the second quarter, is there any clarity that you can provide now? You did mention that we will get clarity in two months to three months. So is that what something we should look at or is there any clarity that you can provide that what sort of credit cost you might look at in the second quarter?

**P.N. Vasudevan:** See, we really do not know, so I am not able to hazard a guess right now on how much will be the NPA and credit cost for the second quarter. But we have proactively put the entire Rs. 100 crores of COVID provision in the month of March, and that Rs. 100 crores is 10%, which means that our total OD, loans which had OD as of February are Rs. 1,000 crores, Rs. 998 crores or something like that, right. Now out of the Rs. 1,000 crores, as I mentioned, 40% have completely paid their overdue, completely, they are in x bucket now. So, which means that when it comes to the month of June, that 40% are not going to be an NPA at all, because if they do not pay in June, they will be in the first bucket.

**Deepak Poddar:** Right. So that is in the Rs. 400 crores?

**P.N. Vasudevan:** Exactly. Rs. 400 crores portfolio, Rs. 40 crores of provision we carry on that, which will be definitely not required for June, 100%. Now the remaining 25% where they have paid at least one EMI, which means that he is in neither the first bucket or second bucket as on date. Now when June comes up, even if he does not pay June and he does not pay anything from today to end of May, and they do not pay June also let us assume, he will still not be an NPA because he will be touching the third bucket in June, he will not be crossing it. So that is another 25% which is Rs. 250 crores, on which we carry a Rs. 25 crores provision. So this Rs. 65 crores provision as on date will not be required for June. So that is the cushion we will carry forward into the second quarter. The remaining 35% of our book where people have been overdue in February and they have not yet paid anything at all, that is a focus area, that Rs. 350 crores is the focus area where we are continuing to talk to the clients and seeing how best client convince them that they should come back to the mainstream by paying up. So we have another 1.5 months' time left on our hands to do that. So out of the Rs. 350 crores, whatever we are able to collect, that is good. And that we are not able to collect probably we will slip into NPA, against which we have already got the provision.

**Deepak Poddar:** You already have Rs. 100 crores buffer, right, as of date?

**P.N. Vasudevan:** Yes, exactly. So, I think we are reasonably buffered up on provision. So second quarter, we carry this Rs. 100 crores of provision into the second quarter. First quarter, we would not really need it as you are saying, so second quarter is where we are actually carrying it forward. And then the performance of second quarter from June to September will determine how efficient the bank has been. And more than the additions in the Bank, I would say how good our clients have been. I think that is going to be the major differentiation where we strongly believe that our relation with our customer is so good that customers would want to be with us. We have always been very supportive handholding kind of a relationship. And that is what I think it should really help us turn around. And as I mentioned earlier, these are all 100% livelihood loans, so they are not consumption lifestyle loans. So that I think makes a lot of difference.

**Moderator:** Thank you. The next question is from the line of Mayuri Yadav from Equentis. Please go ahead.

**Mayuri Yadav:** Sir, my question is with regards to your liability franchise, the CASA ratio has again sequentially come down, and you have in earlier calls also explained that it is existing deposit that are getting depleted, so it is not getting replenished. What is your sense in terms of CASA given that there is a lockdown, so in the ongoing quarter, that is Q1, should we see further decline in the CASA ratio? And beyond say Q2 FY 2021, what is the trend that we can expect in terms of your liability?

**P.N. Vasudevan:** Okay. So I will let Murali answer that, Murali who heads our liability, I will let him answer that. And yes, before he starts, only one broad comment on our liability side is that, we have seen a very good traction on our retail TD, which Murali will give a little bit more details about, and



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that has been a positive support through the last full year years. So I will now request Murali to get in and answer that.

**Murali Vaidhyathan:** Thank you, sir. Thank you, Mayuri. So let us dissect the question into three parts, okay. One is, is a new customer coming into the bank to consume retail products? Yes. We have been doubling our run rate in terms of acquisition. If you see January, we were the first people to remove the NMC waiver. So, which means product became a platform and our MPB acquisition shot up to 16,000 accounts to 20,000 accounts a month. Then we move into the second league of segmentation, that is we clearly defined Elite, NR, in fact domestic, and we have started sourcing. Now what is happening is there are multiple hooks which people would like to test for you during the initial phase. Now, in the initial phase, we have consciously decided retail TD as a hook to bring in customer and then do a product holding and hooks as a product to grow the balance sheet. So at this point of time, our acquisition values, if you see, to the quarter four it has not come down. We have added close to Rs. 700 crores to Rs. 800 crores of deposits and then our AMB went up by Rs. 100 crores during that time. The primary reason where you would have seen a slight dip in CASA, in SA at present we have institution accounts which move their money into bulk, and we had a certain amount of retail customers who after coming in moved into retail TD. So this is one part of the story.

As you said on the quarter one, if you see April and May, we have again maintained a steady run rate thanks to the digital focus, which we are having, we are adding 24,000 - 25,000 new customers to the Bank every month. And out of that, 60% of them are funded. Please remember, until you do a full KYC this becomes like a wallet. So the amount of funding will be to start with say Rs. 3,000, Rs. 4,000, Rs. 5,000 to start with like any digi product. As we do the full KYC, we will expand into the normal phase. So what we are seeing in quarter one is acquisition against the sector, our retail TD acceptance is very good. And even our institution, predominantly the TASC and the societal part of business which is coming in is also growing.

So end of quarter one, and normally between March and April you will always see in CASA certain hot money not only with us, across the industry, that normally evens sits out by May end. So from June we should see a clear take off of CASA growth, RTD continuing to grow at same percentage, and bulk TD is constituting the rest. And last year the important perspective what you have to see retail to bulk ratio. Earlier it used to be say 65% of bulk, now it has become almost 50-50, 50% bulk and 50% retail TD. And if I add that to the overall liability pool, 65% to 70% of the money is now in retail only, retail TD plus CASA. So, that expansion of pipe is very critical for us to garner forward.

**Mayuri Yadav:** Sure. So given they have been unhappy in terms of the deposit outflow for smaller banks, did we see any outflow because of the sector level events that happened, post the YES Bank moratorium did we see any bulk TD outflow for our Bank?



- Murali Vaidhyathan:** No, only those maturities which went towards few government institutions, hardly three or four, otherwise we were predominantly skewed towards retail segment, and we were into the societies as a segment. And then we had NR book, which almost doubled. If you see the NR proposition, today one of the best proposition in the market in terms of interest rates and the convenience is Equitas. So, if you see we almost doubled it during the time. So thank God, touchwood, as of now we have been able to hold the customer. And we have been constantly monitoring wherever the big threshold big money comes in the relationship when the next hook product is sold. So it is not only standalone type, there is a lot of in-depth relationship management that goes into it.
- Mayuri Yadav:** Right. And what is the additional liquidity that we will be holding on our books today and net impact on NIMs in the quarter because of that?
- Natarajan M:** Yes. Additional liquidity by way of we always have a forward liquidity by way of what is called as high quality liquid assets which is parked in government securities and reverse repos. So that should ideally somewhere between 1 month to 1.5 months forward cover in terms of liquidity. In addition to that, we have unavailed refinance, we are eligible to avail to refinance, but we may keep it as a backstop for a rainy day from refinancing institutions like NABARD, SIDBI, and NHB.
- Mayuri Yadav:** Sir, in total amount if you can spell out the total amount approximate.
- Natarajan M:** Approximate we will have to calculate, but it should be at least minimum around Rs. 1,000 crores.
- Mayuri Yadav:** Rs. 1,000 crores?
- Natarajan M:** Rs. 1,000 to Rs. 1,200 crores should be available.
- Mayuri Yadav:** Okay. And overall net impact on NIMs because of which in the quarter?
- Dheeraj M:** Yes, I think we would try to not give any forward-looking statement, so kindly pardon us.
- Moderator:** Thank you. The next question is from the line of Vijay Karkare from Brainstem Investment. Please go ahead.
- Vijay Karkare:** Sir, this 93% moratorium this was as of what date? And how much was the moratorium coming in from the agri loans?
- Dheeraj M:** April 30th.
- H.K.N. Raghavan:** Yes. I mean, agri is a very small percentage in that and then more or less agri also will be similarly in that percentage.



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- Vijay Karkare:** Okay. And of the vehicle book, how much is passenger carriers, how much is goods carrier?
- H.K.N. Raghavan:** Passenger carrier is very, very miniscule, it will not be more than 1.5% 2% that is a check back in reality but it is very, very low. Rest are all goods carriers.
- Vijay Karkare:** Okay. And how much of our customers will require the bounce back loans?
- H.K.N. Raghavan:** We are just kind of reaching out to the customers, we have got some numbers, and it is dynamic. And once we kind of get, one is that customer requests are there and we are also put to the eligibility also is one criteria that we have created. So once they go through the eligibility, then we will know how many exactly number of clients that would be eligible for the Vishwas Loans.
- Vijay Karkare:** And how confident we are of a LAP and the commercial portfolio getting the benefits of the announcements made by the government?
- H.K.N. Raghavan:** We have to wait and then see. We have to really go get into the details, then we will be able to map it our clients and then see how many of them will actually qualify.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now 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, especially at the bank and for joining on the call. We look forward to your continued interest and participation. Thank you and stay safe.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Equitas Holdings Limited, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.