Equitas Holdings Limited

Q1 FY18 Results Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Equitas Holdings Limited Q1 FY18 Results Conference Call. We have with us today Mr. S. Bhaskar – Executive Director & CEO, Equitas Holdings; Mr. P.N. Vasudevan – MD, Equitas Small Finance Bank; Mr. T.S. Narayan – EVP (Treasury), Equitas Small Finance Bank; Mr. H.K.N. Raghavan – President (Inclusive and Outreach Banking), Equitas Small Finance Bank; Mr. V.S. Murthy – President (Emerging Enterprise & SME Banking), Equitas Small Finance Bank; Mr. N. Sridharan – CFO, Equitas Small Finance Bank; Mr. S. Vasudevan – CFO, Equitas Holdings Limited and Mr. M. Dheeraj – VP (Strategy & IR), Equitas Small Finance Bank.

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: Thank you. Good afternoon, everyone and thanks for your participation in this Q1 FY18 call. During Q1, our bank's branches and product rollouts progressed well. 51 new branches were added during the quarter. On business front, Micro Finance business is gradually coming out of the adverse impact due to demonetization. And the non-MF AUM grew almost by 31% year-on-year basis. Due to bank transition cost and provisions on MF portfolio, the PAT for Q1 was ₹ 15.6 crores which was lower than the corresponding period last year. Now, I hand over the call to P.N. Vasudevan to take you through the details of the bank's performance.

P.N. Vasudevan: Thank you, Bhaskar. Good afternoon, everyone. We celebrated our 10th anniversary of Equitas in June of this year. The last 10 years have seen Equitas evolve from a single product Micro Finance company to a well-diversified financier for the masses. I am happy to share with you that our transition to the bank is going as per our plans. Our estimated cost of setting up new liability branches, and the IT cost, is quite in line with our actual cost. The new products that we had planned to roll out post becoming a bank has been rolled out and the initial traction has been good. The traction in CASA and deposits has also been good.

The one thing that we had not been prepared for is the recent issues in the Micro Finance book arising out of certain events. This has led to an increased provision and also reduced income. We have been able to quickly roll out a considerable network of branches across India. We are now focused on leveraging this network to build our CASA deposits and third-party distribution income. Traction in the first 6 months has been satisfying. The new lending products like business loan, agri and gold loans, which were mentioned during our IPO road shows, have taken off well. These have been launched in anywhere around 120 to 140 branches. We now focus on building this portfolio while keeping a check on the quality. I am pleased to share that these new products are already around 3.5% of our AUM. Once our initial experience stabilises and we have a good handle over the entire product processes we will be taking this product to the rest of the branches also.

We are leveraging our Micro Finance distribution channel for other lending products. The credit, legal and collection systems, which are readily available, are being used for these new products, and we do expect to see a good growth in these products going forward. The challenges in front of us at this stage as we see it are 1) Leverage the new branch infrastructure and related cost to move our CASA and third-party income. 2) Scale up the new products while keeping the quality intact 3) Leverage the physical infrastructure and the staff at the branches for the new products and 4) is to hope that the Micro Finance industry stabilizes and comes back to its normal levels of efficiency.

So, these are the challenges that we have seen as we go forward. Our ability to innovate and follow it up with a very strong execution is something that we will continue to rely on to help us meet this challenge and build a robust banking platform over the next few quarters. The presentation has good level of data on information and I hope most of what you would normally want or look for is available there. I will now hand over to Sridhar our CFO.

N. Sridharan: Thank you, Vasudevan. On the financials, the Net Interest Income for Q1 FY18 grew 5.6% on Y-o-Y basis. AUM as of June 17 stood at 7,036 crores compared to 6,559 crores as of June 16, registering an increase of 7.3%. Non-MF portfolio grew by 30.9% year-on-year and 4.9% Q-o-Q, while MF portfolio fell 14.1% year-on-year and 10.2% Q-o-Q. PAT for Q1 was 15.6 crores, against 6.9 crores for Q4 and 61.2 crores for Q1 FY17.

The fall in profits year-on-year basis, is mainly attributable to the higher operating expense due to the liabilities branches rollout, incremental NPA provisioning on MF portfolio and cessation of benefit on NPA recognition dispensation as of June 17. During Q1, the bank has revised its estimate for provisioning on Micro Finance loan portfolio, to align the same with the relevant requirements of RBI. Externally triggered large-scale default was not envisaged in our earlier policy. This should have resulted in almost 100% provisioning as of Q1, which may not be warranted. The bank has made incremental NPA provision to the tune of ₹ 35 crores in Q1 including ₹ 24 crores on MF portfolio as against ₹ 21 crores provision in Q4 FY17.

As at June 30, 2017 the bank has a total NPA provision of ₹ 136.5 crores as against ₹ 101.5 crores as of March 31, 2017. GNPA as of June 17 stood at 4.91% against 3.53% as of March 17. The spike is attributable to predominantly due to the MF portfolio. The GNPA for the non-MF advances has been relatively stable.

With this, I hand over the session to the moderator for the Q&A part.

Moderator: Thank you, very much. We will now begin with the question and answer session. We have the first question from the line of Vishal Rampuria from HDFC Securities. Please go ahead.

Vishal Rampuria: Sir, basically I got two questions to ask you. One is on the MFI book. How much do you think we have a short fall at this point of time? My second question was on this other income, which we have booked in this quarter of 60 crores of PSLC income. So, sir want to understand whether this will be a recurring income for us going forward and we sell more certificates or this is one-off for us?

P.N. Vasudevan: So, on the second part I will ask Narayan, our Treasury Head to explain. On the first part, you are asking of the short fall in Micro Finance or something like that, what was it?

Vishal Rampuria: My question was as you mentioned that we have a delinquency book of around 208 crores, and we already have 60 crores-70 crores of provisioning. So, what is incremental credit cost from this particular book?

P.N. Vasudevan: One is that out of that about 40 crores is securitized book so, that really makes it 178 crores. Out of 178 we have a provision for about 70 crores today and the remaining will depend on how the portfolio performs over the next 2 quarters. About 35% of the customers who are in overdue currently have been paying something or the other, at least one installment in the last 2-3 months. So, that is one data point. Second thing of course is, what impact we are going to see when the overdue customers, especially in Maharashtra, come back and start to pay once the list of loan waivers are announced by the government by end of July or earlier August. And once that list is out and the customers realize that Micro Finance loans, which they have borrowed, is not part of that list, then what is the response going to be from them in terms of repayment. Because in UP, while we do not have a presence, we understand that after the loan waiver was announced and the list was released, there has been an improvement in the repayment of overdue customers. Therefore, we have to see what will be the similar impact in Maharashtra, so ultimately what will be the shortfall that we may have to provide for is something that will depend on these 3-4 factors. Now, I will give to Narayan to talk about the PSLC.

T.S. Narayan: Coming to the second part of your question, whether the income relating to PSLC will be recurring. As regards to PSLC, the premium is decided on the number of quarters that will be remaining until next financial year. Normally, the premiums would be higher in June and progressively will get reduced in September, December and March. So, the amount of income would definitely be more in the first quarter. Progressively it will depend on the premiums which will be there in the coming quarters that are in September, December and March. As also the book size which will be there, so that is what we wanted to say.

Vishal Rampuria: So, how much certificate we have sold in this quarter?

T.S. Narayan: This quarter we have sold PSLC certificates to a tune of 3605 crores.

Vishal Rampuria: And how much more head room we have to sell more certificates?

P.N. Vasudevan: That will depend on how much new assets we generate and what is our own requirement going forward. So that will be kind of a dynamic number which will have to be worked out as we go by.

Vishal Rampuria: No sir. What I am asking is, at this point of time assuming on the same book size of around 70 billion how much more head room we have to sell certificates, at this point of time only?

P.N. Vasudevan: Most of what we have today we will need for ourselves. So, we will have to see how that moves as we go to the next quarters.

Moderator: Thank you. The next question is from the line of Piyush Chadhha from Ocean Dial. Please go ahead.

Piyush Chadhha: From the numbers, it seems that your PAR-zero is around 7% of the Micro Finance book. First of all I think that is a very good number, so congratulations on that. Amongst all the people who are heavily involved in Micro Finance there seems to be a feeling that the levelized credit cost of Micro Finance is round about 100 basis points a year, which can come suddenly in one year with very little credit losses in other years. Would you agree on that and are you thinking of putting in place some kind of floating provision going forward?

P.N. Vasudevan: On a normal basis in Micro Finance, typically it is priced for about 1% credit cost losses per year. So that is the normal level; under normal circumstances, that is what really happens. So, when some event like what has happened recently occurs, obviously, the whole stability of the situation gets quite disturbed and the actual losses that you may end up booking in that particular year or spread over the next few quarters could be very different from the 1% that normally the product is priced. Therefore, that is always a challenge and many times the events that happen, like what has happened recently is really not under anybody's control. So, we have to just kind of respond to the situation as it unfolds and emerges, but that is the way it is. So, yes you are right, normally the credit cost is about 1%. However, in events like this it can be very different of course based on institution to institution it could vary but it is still substantially over the 1%, which is normally an acceptable level.

Piyush Chadhha: Some companies are talking about just creating a levelized provision, take a 1% credit charge of ever year, and over provision if needed. So, when that big hit comes every 5-6 years you do not have to suffer lumpiness in earnings. Is that an approach you would consider?

P.N. Vasudevan: Yes, so we have some floating provisions. These are various methods so, yes definitely those things can be done, can be considered.

Piyush Chadhha: Secondly, on the operating cost, your run rate is now almost 230 crores a quarter. Can you just give us some idea of how much of this is technology and backbone and how much of it is branch expansion related? Should we sort of look forward to 10% to 15% cost increase every quarter or at some level you would move to just an incremental cost basis?

P.N. Vasudevan: As we mentioned in the last quarter, the cost would more or less have peaked during the first quarter of this year. Because we have put in place almost all the branches another about 35 which are going to be almost ready to open.

But the staff have been recruited and the technology has been deployed. So more or less we can assume that the first quarter June 17 quarter would represent very near to the peak of our expenses and to that extent on a quarter-on-quarter basis we should not be seeing too much of a change.

Moderator: Thank you. The next question is from the line of Saurabh Das from Franklin Templeton. Please go ahead.

Saurabh Das: My first question pertains to this PSLC income. You just mentioned that you have sold 3,600 crores worth of PSLC certificates. If I am not wrong, close to 75% is what we require as PSL maintenance. So, against an AUM of 9,000 crores how is it possible that after maintaining 75% PSL we have been able to sell 3,600 crores?

P.N. Vasudevan: The RBI has a guideline, RBI guideline in terms of how to calculate ANBC and then once you calculate the ANBC then the percentage of PSL required is applied on that to arrive at what is the target for each bank. So, if you can kindly go through that ANBC guideline it describes how and what are the various parameters to consider. So basically, we go through that and that is how it is arrived at. So, it is very difficult to go beyond that on a conference call. But if you go through that and if you have any further doubts on that you can just get in touch with Mr. Narayan, our Treasury Head and he should be able to take you through further if required.

Saurabh Das: The second part was, once the PSLC certificates are sold is it on a quarter basis or an annual basis. So once the bank has purchased, is it for the reminder of the financial year or it is on a quarterly basis?

T.S. Narayan: Yes, whenever it is sold it matures at ending date of the financial year. Whatever we have sold will come back to us only next year 1st April.

Saurabh Das: So, in that case is it fair to assume that there is no further PSLC income which is possible for the reminder of the year or virtually very little?

T.S. Narayan: No, that we cannot say, that would actually depend on the growth in advances and other things, which would also be there. So, we cannot give a qualified remark that it will not be there. Definitely there would be income but premiums should be slightly lower.

Saurabh Das: Slightly lower is what you are guiding?

T.S. Narayan: Slightly lower, because the premium percentage is coming down as the related quarters come down.

P.N. Vasudevan: Saurabh, he did not say the income will slightly come down. He said the premium will come down. So, if the premium is let's say for a particular class of PSLC, if the premium in the first quarter is let's say 2% then typically it will keep coming down to say 1.5-1 something like that as you go by on a quarter-to-quarter basis.

Saurabh Das: And one more clarification, this is regarding the 208 crores of PAR one which we have. You mentioned that 170 crores are what we have on our own books, the remaining 38 is actually the securitized pool. So, wanted to understand even on the securitized pool we would have certain first loss charges, so won't the provisioning be required for that as well?

N. Sridharan: See, as far as the securitized portfolio is concerned, it is well covered by the EIS as well as the cash collateral and that takes care of any default that happens in the securitized portfolio. As of now, our EIS is going and supporting that and we will not have any charge in that profit again.

P.N. Vasudevan: So, what it means is finally if there is a loss on a transaction which is securitized the impact may not come in the provisions line but it will actually come above, in the top line in terms of reduced income.

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

Rohan Mandora: Sir, firstly I would like to understand with respect to staff which is getting redeployed from the MFI business to other businesses. Would there be any reskilling or training that would be required what kind of cost expectations we have from that?

P.N. Vasudevan: I will give to Raghavan who handles our Inclusive Banking channel.

H.K.N. Raghavan: As far as the employees are concerned in fact, they remain in the same channel and based on the product to which the manpower is released, they will be actually canvassing for the new product: which is agri loans, loan against property and then business loans. So, they are redeployed within the branch for scaling up other products and the cost, it will all pan out because of the productivity; this is the quarter where it has kind of got some traction, as and when the loan sizes and our loan book increases the cost of these particular products will come down progressively.

Rohan Mandora: And sir, so what I was trying to understand is because some of these skills, like when we are focusing a new product say a home loan or a vehicle loan, for example an agri loan. There the sourcing mechanism is completely different from say an MFI loan and the channels are very different. So, because these people would need to gain those market traction, so it would take some time is what I believe. So, productivity of these employees would be impacted because of the transfer: person who is in a collection department MFI moving into a sourcing of an agri loan. So would there be a scaling gap that would come in say 3 months-6 months period where the productivity would be lower. What is your sense on that?

H.K.N. Raghavan: We started this micro-LAP way back in 2012 and micro-LAP is as a cross sell product to the existing MFI clients and in last 4 to 5 years the branches are well versed in terms of getting traction on this particular loan and the mechanism of underwriting is also the same almost all. The only thing is that as far as this agri loan is concerned, we are talking about small and marginal farmers, which is forming part of our MFI customers themselves. And housing loan 30% to 40% will be the existing loans and they have to go outside the

Micro Finance clients and then canvas. I think last couple of months in terms of lead sourcing, various activities below the line activities have taken places in every branch thereby the leads are coming and based on that they are able to kind of scale up this particular product. However, whereas the underwriting skills, which is very critical as far as these products, are concerned, is anyway there with us. So it is only a question of lead generation. So, the kind of traction need not be a long period of time but it can happen in a very short period of time and we are already seeing the results.

Rohan Mandora: And sir on this PSLC fees that 60 crores that we have booked in a quarter, so that will be repeated in each of the subsequent quarters right because the PSLC fees, we amortize through the year is what I believe?

N. Sridharan: The PSLC income is not amortized over a period, it is taken as an income full on the date on which it accrues.

Rohan Mandora: And sir can I get the GNPA ratios the product wise and the vehicle finance, home loan, LAP and micro loans?

P.N. Vasudevan: We do not get into granular details in terms of each product wise. So, if you see that we have given the GNPA numbers for Micro Finance as well as all other products put together, so we are not giving the GNPA and other granular details product wise.

Rohan Mandora: Because this is the numbers which are available in the last quarters that is why I was thinking if you can share.

P.N. Vasudevan: No, last quarter itself we had rather changed that because there is so many more products now and there is no point in giving it product wise.

Rohan Mandora: And sir, if I look at the average savings deposit that comes to around on a 48,000 per customer savings account deposit. It looks above industry average, so just wanted to get a sense like which are the segments we are targeting right now on savings deposits?

P.N. Vasudevan: See, basically the target customers are the mass, mass affluent segment of customers and this 48,000 is actually not above the industry average. The industry average is actually substantially higher is closer to about 70,000 or so. But the segment that we target for savings account is a mass and mass affluent.

Moderator: Thank you. The next question is from the line of Vibha Batra from Fair Connect. Please go ahead.

Vibha Batra: My question is related to, your guidance of within five years it will be an ROA of 2.25% and ROE range of 16% to 20%. If we were to look at the non-MFI portfolio how close are you to this in the non-MFI book or how long will it take to reach this?

P.N. Vasudevan: In the older products, we are very much in line with those numbers like the used commercial and micro LAP. The new products of course the new products they will take time to scale up and stabilize and contribute in full. But the old products are quite in line with those at an individual product level. See, on a steady stead basis …

Vibha Batra: And old products should constitute what percentage of the book?

P.N. Vasudevan: The old products should constitute approximately about anywhere around 45% to 50% of the book.

Vibha Batra: And one more question I have this PSLC certificate this income booked is 60 crores that is the income for the year, I mean so you book it as soon as those PSLCs are sold or there is going to be the recurrent flow on account of this three and half thousand crores?

P.N. Vasudevan: That was just the previous question which were answered.

Vibha Batra: Yes, actually this is a bit of confusion because it said, I think as it is accrued, so I am not sure whether it will be accrued throughout the year, what the tenure of those, I mean …

P.N. Vasudevan: No, it is booked on the day on which the PSLC is sold the income is booked.

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

Amit Premchandani: Just a question on this PSLC again, sorry to bother you on that. But you have sold Rs. 36 billion against AUM of Rs. 70 billion which is more than 50% of the AUM. However, you calculate the net adjusted bank credit, we do not know how you will meet this 75% requirement. I was going through the regulations, it says that the PSL requirement will come if the subsequent year of your operation. So, is it true that as of now you have no priority sector requirements and this will be based on the last financial audited numbers and is applicable from next year and hence you can sell such a high amount this quarter?

P.N. Vasudevan: Yes, that is true. One is that you have to be a bank in the previous financial year and then the thing gets determined based on the last year end of that financial year and second thing is that we do not "however calculate ANBC", it is always calculated only in the same basis that RBI prescribe for. And as I had mentioned to an earlier caller also, these are very standardized calculation methods that is laid down by RBI and if you still have any doubts or required clarification please do get in touch with our Treasury Head and surely you should be able to walk through it.

Amit Premchandani: Just a clarification, so basically this all priority sector related requirements for you will be applicable I think maybe next year rather than this year, right? It is a fair …

T.S. Narayan: The PSLC figures, as said ANBC will be calculated as on 31st March 2017 and applicability will be effective from March 2018 onwards.

Moderator: Thank you. Next question is from the line of Kaustav Bubna from SKS Capital. Please go ahead.

Kaustav Bubna: What would be your operating expenditure for one liability branch be. So out of the 228 crores of OPEX, you opened about 51 liability branches this quarter, what was that cost base?

P.N. Vasudevan: The typical infra cost of a branch is on an average, if you combine a metro to a rural branch and divide everything by the number of branches, the infra cost for branch comes approximately to about 35 lakhs. And yearly cost of running a branch which includes all the salary cost and all other revenue and recurring cost including the rental etc. on an average, again combining a metro to a rural and divide everything by the number of branches, you should be approximately looking at anywhere around 45 lakhs to 50 lakhs of operating cost per year.

Kaustav Bubna: So, to setting up it was 35 and then on your 330 branches we have about 40 to 50 because that is like your yearly cost, is what you are saying?

P.N. Vasudevan: Yes.

Kaustav Bubna: And so you do not give a breakup of your NPA for your non-MFI but I would like to ask you in FY terms could you give me your numbers, so non-MFI books your NPA in FY16, FY17 and then we know what this quarters. So, what was your NPA in FY16 for your non-MFI book, what was your NPA for your non-MFI book in FY17. Because that would give me an idea of how your NPAs, your bad loans…..

M. Dheeraj: In fact, on Slide #14 we have given you the trend of MF and non-MF, the NPA chart. So that gives you the chart and going forward since we have got a diverse set of products, we are grouping up products with similar behavior and trying to give NPAs accordingly.

Kaustav Bubna: This is only for FY17. For FY17 your NPA is 4.4%. Could you give me quarter for FY16 number?

M. Dheeraj: Since it is not comparable because it is before we became a bank, so before we were not bank then hence we have put it. But if you look at the previous year’s quarterly presentation we have given you that breakup and this portfolio weightages too, so it should not be too difficult to calculate that.

Kaustav Bubna: Just wanted to understand one more thing. Because this quarter other income was exceptionally high. So, I am just assuming you should expect your ROE for FY18 to be below your ROE of FY17 right? Internally, would you expect your ROE to be below for FY18 to below your ROE for FY17 because you still have liability branches to open?

P.N. Vasudevan: So far we have not been giving guidance on profits or anything like that so I am not going to give you a number.

Kaustav Bubna: Would you agree with me that it is logical to think so?

P.N. Vasudevan: I think logically you are looking correct.

Kaustav Bubna: That your ROE for FY18 will be below FY17?

P.N. Vasudevan: Yes, because last year our cost was not really at the peak, because the first 6 months we were only running as an NBFC and only in the second half we started incurring cost of transition to the bank. So, the last year was not a fully costed year, whereas this year is going to be a fully costed year and yet the benefit of this transition cost is not going to be recognized or received within this year, the benefit is going to spill over to the subsequent year. So, this year clearly is a year where we are see that our cost going to be at the maximum likely number whereas the benefit is not coming this year it will probably come partly this year but mostly next year. So, whereas last year was to some extent simpler year because 6 months at least was just an NBFC where there is no extra cost and the business was as usual.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: My question relates to this Micro Finance book. Where you expect this book to move whether in absolute term will it continue to decline towards the year end or will it stabilize over year?

P.N. Vasudevan: I think we have mentioned that already that we expect Micro Finance to contribute to slightly under 30% by March 2018 which means that in terms of actual quantum it should come further down during the year so that its contribution comes to just under 30% by March 2018.

Sunil Jain: Yes, if we assume 30% growth for your rest of the book then the decline in this is still substantial. So, why you are looking for such a big decline?

P.N. Vasudevan: I think we have been mentioning this in the last two presentations and the quarterly meetings also; I think we have been communicating our view points and position on the Micro Finance and our planned product mix contribution that we are looking at and this is in line with what we have been communicating in the past. As to why we want to remix the portfolio on this basis, etc. I think again there has been lot of communication which has happened in the past on that. Fundamentally, the reasons being that the impact of the recent events on the Micro Finance front has been quite high on our book and so going forward we do not want to really have a portfolio mix which could keep getting such impacts whenever such kind of external events happen. So, we are really very keen to build a portfolio mix for the bank which will ensure that even with external events happening, like in the recent past, our portfolio overall should not really be impacted and overall, we should be able to take it in our slide and keep moving forward. So, that basically is the objective and it is towards that objective that we are going through all this pain in terms of creating a remix of our portfolio.

Sunil Jain: So, what could be the percentage of Micro Finance that you will feel will be a balanced size of the overall book?

P.N. Vasudevan: Well, right now we are not getting so far down the line to find out what percentage it should be, but suffice to say that if there is a disturbance in

Micro Finance at any point in time in the future, it should not really leave too much of an impact on our financials. So, that is clearly the objective. So the Micro Finance will be calibrated, the contribution of MFI will be continued to be calibrated over the next may be 2 or 3 years in such a way that it should not really be in a position to hurt the financials too much, if such kinds of events recur again in the future. So, beyond that general guidance I am unable to give you any particular percentages because firstly we do not give too much of guidance as I mentioned earlier and secondly we also will keep working and calibrating on it as we go by. So, broadly that is what I could tell you.

Sunil Jain: One more last questions related to your vision you had said that to serve 5% of Indian household by 2025. So, what exactly in financial term this may mean?

P.N. Vasudevan: Yes. So if you take 120 crores of Indians and divided by 5 then you come to the number of households which is approximately about 220 million households and so, if you are talking of a 5% of that then you are talking of about 10 million or 11 million households. So, basically our objective is to try and ensure that we create a banking relationship with anywhere in the range of around 10 million-11 million households. We currently have relationship with approximately about 2.5 million -3 million households and as we go by & open up our services on the savings account front, NPS, and all the stuff. So we hope that we should be able to improve our number of customers over time to try and reach this vision.

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

Aseem Pant: Just couple of questions. One is sir, the GNPL ratio increase in the non-MFI Q-o-Q, is it fair to assume that most of the increase is explained because of some loans that were under dispensation because of the demonetization circular?

P.N. Vasudevan: Yes, absolutely.

Aseem Pant: So, otherwise it would have been more or less stable?

P.N. Vasudevan: Otherwise it was very stable, yes.

Aseem Pant: And sir secondly, how much of your MFI portfolio would be now in Tamil Nadu versus let's say last quarter if you can share that number?

P.N. Vasudevan: Actually, that is not very relevant in the changed circumstances. So traditionally in Micro Finance, Tamil Nadu used to be contributing about 65% odd, but in the entire changed circumstances our own focus on Micro Finance is very different from what it used to be in the past. So, that is not very relevant going forward.

Aseem Pant: And sir, lastly if I could kind of understand your thoughts around, if and how GST might impact your business especially the MSME business or the small corporate business, etc. how do you see that influencing your prospects?

P.N. Vasudevan: See, there is definitely some level of slow down. I think we can feel it, we can see it, when we talk to people, when we go down and meet anybody you can see that there is a lot of confusion, lack of clarity also fear, and various kind of stuff. People are only just slowly getting around to it and maybe they will get used to it they will become more clearly as we go by. But definitely, I think in the initial period the first week, two weeks, three weeks there has been lot of hesitation on the part of lot of people in terms of how they should get registered, whether they want to get registered all those kind of stuff, which obviously means that these things do have some impact on their turnover. But what we understand from many quarters is that these things will settle down and may be August onwards we should hope that manufacturing, production; everything should be back to normal. That is what we are expecting and hoping.

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

Dhaval Gada: My first question was on the Micro Finance space. Sir, what in your experience has been the collection efficiency of disbursements made post 1st January 2017 on the MFI disbursement?

H.K.N. Raghavan: Post-demonetization percentage collection is 99.8% and absolutely fine quality in terms of disbursement that has been done post-demonetization. And all disbursements post-demonetization has been 100% through bank accounts.

Dhaval Gada: The second question sir I had was on slide 14 you have given the non-MFI GNPAs. If you have the like-to-like comparison for Q1 FY17 based on 90-day basis, what would be that number in case you have and just related to that in your view would you agree that the business model will always show >4% GNPA on a steady state basis. Is that the model, would you agree with that?

P.N. Vasudevan: The Q1 FY17 on a 90-day basis will still not be fully comparable because as an NBFC you classify an NPA when it crosses certain number of days. Even if you take a 90-day basis, then as an NBFC once you bring an account back from 90 day to let's say less than 90 day overdue, you do not even call it as an NPA any longer and it is moved to standard assets. But for a bank unfortunately even if an account is moved down to 60 days overdue bucket it still has to be classified as an NPA for the bank that is one thing. And second is that, the ceased vehicle stock that we have in the vehicle finance division the unsold stock of ceased vehicle at the point of reporting gets shown as an NPA for a bank, whereas as an NBFC that is never done. It is just shown as repossessed stock. So, there are some differences, so even if I do have the 90-day equivalent number of Q1 FY17 they are not comparable because the way you calculated NPA for a bank and NBFC is not really the same.

Dhaval Gada: I appreciate that, but from a qualitative perspective in terms of a business model would you agree that the non-MFI piece that we are developing at this point it is likely to report >4% NPA on a 90-day basis on a steady state, would that be a correct assessment?

P.N. Vasudevan: Yes, see basically the old book which is our used commercial vehicle and the micro-LAP, these are the two products we have been running for about 5 and 6 years. So, principally the GNPA contribution of all other products put together is nothing but these two products because all the other 4 products are launched very recently. So, the vehicle finance NPA, I do not have the exact the number, but I can tell you very broadly it is around 6.5% or so on a GNPA basis and for the MLAP it is under 1%. So, that is why on a combination basis we are talking of a 4.6%, 4.7%, 4.8% of NPA for this segment put together. Now on a going forward basis if you ask me whether it is right to assume that our NPA will be typically in these levels, not really because the new product that we have launched, one the lending rate of these new products are actually lower than the used commercial and the MLAP. The productivity of those products will be higher, the ticket size typically is much higher, the quality of the customer who borrows those loans will be different, and so the NPA from those products are also expected to be different. So because of all that, I believe that the GNPA of all the other products might see some bit of improvement as the new products start contributing more to the portfolio.

Dhaval Gada: Just last thing, so I just try to understand the mix let us say MFI is 15%, vehicle finance will be 30%-odd and then you will have MLAP housing and business loan which will be another 20%-30%, would that be a correct assessment?

P.N. Vasudevan: I keep telling I do not want to give guidance. Because commercial vehicle, currently contributing about 27%. So, it might be around that 20%-25% levels. MLAP is already around 20%. So, it might be going around the same rate. The new products should take over in terms of the balance contribution. The business loan is one thing which is coming up quite well. Gold loan has also started off well; the agri loan is something that will be also ramped up as we go forward.

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

Deepak Poddar: My question pertains to the fact that your business model is changing: MF book you are planning to reduce to under 30%. So what sort of sustainable ROA do you see in let us say next 3 to 5 years for our kind of business, which include SFB and the MF reduction?

P.N. Vasudevan: Typically, the ROA on a 5-year basis we have already indicated what ideally it should be. So, the products that we are dealing with, the scope to grow these products is very high because of not enough of supply of financials in this market. So, I think we have already given an indication of what could be potentially steady state 5-year kind of an ROA, ROE.

Deepak Poddar: So, is that a 2% to 2.5% which has been mentioned?

P.N. Vasudevan: Yes, we already mentioned.

Deepak Poddar: That is a steady state ROA that one should assume when the operation stabilizes?

P.N. Vasudevan: Yes, absolutely.

Deepak Poddar: In the timeline, you are mentioning 3 to 5 years is when the ROA of 2%-2.5% and 16% to 20% ROE would be achieved, correct?

P.N. Vasudevan: Yes.

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

Roshan Chutke: Firstly, on the MFI book, should we not be postponing the MFI book reduction by a year or so? Because we are building out new products and you might be required to be slow in your growth in these new products in the initial years, as you understand these businesses better right? Therefore, if you can just pace out a decline in MFI book by another year, which can help because we are going through numerous challenges as it is right now? My point is it would be countercyclical now that we have seen the problems why do it now probably we should have done it before December ideally speaking.

P.N. Vasudevan: So, if you go through our earlier quarterly presentations and if you see our history we have been always very cautious on growing any loan portfolio, which includes Micro Finance portfolio. In addition, when in 2011 there was a decision on diversification, we did start a few new products and in 2016, we had a target to bring MFI down to about 50%. So, it was 53% in March 2016. In 2016 when we sat together, we had another plan for the product mix going forward. So, generally, things have been going along that direction but the events that have happened in the recent past obviously have its own impact and we are going through that impact on our financials now. The question is whether you want to reduce it to some level X or you want to reduce it X plus something and then reduce it to in the next year to X. So, there is lot of permutations combinations that one can work out on this and there is no right or wrong answer for any of these things. Ultimately it is only what you finally decide to do. You do it, whether decision A is correct or decision B is correct, there is nothing right or wrong about either. However, what we would like to have is, if at all such kind of events do happen again, we do not want the impact to be very high on the bank. And if at all, touch wood I hope nothing ever happens ever again in all our lifetime, but if at all something does happen we do not want any significant impact on the bank. We would prefer it to be as small as possible. And so, the whole plan is only from that perspective. And yes, that is giving us a short-term pain but considered the view of the management that short term pain is something we believe is better than potential impact that we might have if such kind of events recur again. And whether such events will recur again none of us have an answer to that question. We hope, of course that such things never ever recur again. But we do not have answer whether it will happen again and if so by what time frame, nobody has an answer to that. So, the only response to that kind of scenario is, can you do something by which if such things do happen then the impact should still be very nominal or minimal and the whole approach, the whole plan, the entire exercise that the management is going through is really from that perspective. And again, as I told you there is nothing right or wrong about it, whether 30% is correct, 40% is correct, 20% is correct, there is nothing right or wrong about any of this. So, ultimately it is a collective decision that we go by.

Roshan Chutke: And to talk a little bit about your agri loan portfolio. What kind of farmers do you finance, what tenures, ticket sizes?

P.N. Vasudevan: That is basically term loans that we give. The loans are up to 5 years, the customer can make a choice of the tenure. So, we do a thorough assessment of the capability to repay the income streams. We also look for some non-farm income to support the customer in terms of income stability, in case of any disturbance on its farm income and typically, the loans are linked to the farm size, land size & land holding.

Roshan Chutke: What kind of thresholds do you have in terms of land holdings?

P.N. Vasudevan: So, it can be anything from 1 acre onwards. So, we have up to 5 acres the customer is classified on the SFMF category and above 5 acres he will be treated under the regular farmer category.

Roshan Chutke: Finance across the spectrum, is it?

P.N. Vasudevan: Yes, right now we have products rolled out up to the 5 acres. The product for medium to larger farmers is not rolled out; it is still under work in progress.

Roshan Chutke: And do we have a liabilities function head or are you overseeing that as well?

P.N. Vasudevan: Yes, we have the 3 zonal managers for liabilities. We do not have a head of liability as of now.

Roshan Chutke: And lastly one last question. What are the rates you are seeing on CBLO front?

T.S. Narayan: The rate pertains to CBLO as regards the available ongoing market rates which are there. That is close to about 6%-6.10% which is the current rate and probably we think if there is cut probably would react equally accordingly.

Moderator: Thank you. Next question is from the line of Bhavik Dave from Reliance Mutual Fund. Please go ahead.

Bhavik Dave: Sir my question is regarding your SA customer base, I just wanted to understand what proportion of our SA customers are also our asset side customers?

H.K.N. Raghavan: The lending customers, which is all the retail customers of micro-LAP and new products that we are introducing, all these customers are opening accounts in SA in the bank today. This is almost 70% of the clients whom we are lending to; they are our clients now on the Savings Account side as well.

Bhavik Dave: And sir, also wanted to understand the new products that we have gotten into, what proportion of an existing MFI customers that we had? Are we able to point them on these new products or are we completely sourcing new customers for these new products?

H.K.N. Raghavan: For these new products, currently very small percentage of the customers are from the Micro Finance customer base but otherwise we will see from the general market.

Bhavik Dave: So, it is completely new set of customers we are going and targeting, right?

H.K.N. Raghavan: Except for the agri products, which are small and marginal farmers, mostly it will be from the Micro Finance fold only. Then, MLAP anyway we have, since the past 4 to 5 years, close to 60% of the clients of micro-LAP are from the Micro Finance customer base.

Moderator: Thank you. Due to time constraints, we will be able to take one last question. The last question is from the line Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Just one clarification. The margin compression that we have seen during the quarter was part of that due to the EIS impact?

N. Sridharan: 9.1% is including the EIS actually.

Rohan Mandora: So, sir the decline that happen in margins Q-on-Q, so what was the key reason for a decline sir?

N. Sridharan: So, the EIS has declined because the securitized portfolio, which is the affected part, is used to offset that actually.

Rohan Mandora: So, the decline in margin that came sequentially, off 60-70 basis points, and that was primarily due to EIS or there were other factors, is what I was trying to understand?

N. Sridharan: This is because of base increase.

M. Dheeraj: Just to reiterate what Sridharan had said, so the reason for it to drop to 9.1. So there are 2 reasons. One is the EIS which is the earnings we get for our securitized assets and the second one the NIM which is shown in the presentation is calculated on averaged total assets. So if you really look it at. The assets also increased, so that is the reason.

Rohan Mandora: And sir what contribution would come from EIS decline out of the 60-70 basis points? 30-40 basis points would be due to EIS could it that be a fair assumption?

M. Dheeraj: Yes, a little more than that but yes.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference over to Mr. Bhaskar for any closing comments.

S. Bhaskar: Thank you, thank you all for the joining the call.

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