“Equitas Small Finance Bank Limited Q4 FY-22 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Earnings Call of Equitas Small Finance Bank Limited's Financial Performance for Q4 FY22.

We have with us today Mr. P. N. Vasudevan – MD & CEO, Mr. Sridharan N – CFO, Mr. Murali Vaidyanathan – Senior President & Country Head (Branch Banking, Liabilities, Product & Wealth), Mr. Rohit Phadke – Senior President & Head (Assets), Mr. Natarajan M – President & Head (Treasury), Mr. Dheeraj M – SVP & Head (Strategy, IR, BI & Customer Experience), Mr. Rahul Rajagopalan – DVP (Strategy & IR) and Ms. Srimathy Raghunathan – CFO, Equitas Holdings Limited.

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. P.N. Vasudevan. Thank you and over to you sir.

P.N. Vasudevan: Thank you. Good morning to all of you. Thank you for taking out time all to be with us today. On the environment, the microenvironment has lots of challenges in the form of supply side issues and geopolitical issues. However, within that in India we see robust demand and high level of business activity.

The GST collections month-after-month continues to touch record level. Inflation remains at elevated levels, probably as a combination of both higher demand and supply side issues. RBI intervention as we know, yesterday RBI has raised the repo rate by 40 bps and CRR by 50 bps. The general expectation is that RBI might raise the repo rate further could be around another 50 basis points sometime during the rest of the year.

So, what would this be on the impact on Equitas? In Equitas around 15% of our book is linked to the repo rate while the rest which are small ticket loans or fixed rate in nature. Our average asset duration is only around 2.5 years. As these loans get repaid, they would be redeployed at the current rates. As far as our deposit rates are concerned, we would follow the market and if our cost of funds goes up, we would look to pass it on to the borrowers trying to keep the impact on the Bank's net yields neutral.

On asset quality I am happy to note that the overall asset quality has improved over the last two quarters. The credit cost of non-restructured book for the fourth quarter is at 1.25% annualized which is in line with our pre-COVID times. As for the restructured book is concerned as we mentioned earlier, the billing for all the restructured book started in the third quarter wherever customers were unable to come out of the stress, that book has already become NPA by March '22. On the remaining non-NPA book of the restructured loans we believe there is hardly any further deterioration likely based on metrics which Rohit would share shortly. We had guided for 2.5% credit cost for FY22 and our actual credit cost is very close to that. we now believe that the credit cost for FY23 would be about 1.5% and going further forward, we believe it should taper down to our regular level of around 1.1% to 1.2% per annum.

On Growth, we had guided after the second wave that we will be looking at the growth of about 15% for the last year and the actual growth is in line with the same. As you are all aware 90% of our lending is to the informal sector where the demand for credit remains very high and supply continues to remain very low. We have seen this play out in the fourth quarter where we disbursed the highest quarterly disbursement ever beating the previous highest of the second quarter. For the current year we expect to get back to our more regular growth rate of around 30% per annum.

Our early digital customer acquisition programs have done very well, helping us acquire significantly large number of new customers. And to our pleasant surprise we have also seen a healthy 7% of our savings balance coming in from these digitally sourced accounts. We have put in place many initiatives which Murali will explain later, to work on further conversion and leveraging of digitally sourced accounts to make it contribute further to the values. We are working on creating a platform for both acquiring and servicing as well as cross-selling to customers on a wider range of products and services. Given our success so far I believe we would be able to roll out our platform which will significantly enhance the capabilities of the Bank. I will be sharing greater details of the same in my next quarter communication.

To conclude, with the asset quality back on track, continuous decline in our cost of funds, a strong CASA franchise and a team which has delivered high growth in the past, I believe we are set for a robust performance going forward.

Thank you and over to Rohit.

Rohit Phadke: Good morning, everybody. Advances grew by 15% year-on-year and 5% quarter-on-quarter. We have seen a very strong growth in March. We did an all-time high disbursement of Rs. 1,390 crores in the month of March. Historically we have always grown pre-COVID levels, we have always grown to about 35% and last year when the restructured our book, our restructured book stood at 9.5% of our advances and that was for us a big number. So, we wanted to focus on getting the restructured book back into normal portfolio quality. We did choose to focus on collections. We redeployed many of our sales staff into collections, and that has paid good results. Today we have Rs. 1,500 crores restructured book, out of the 1,500 crores, 611 crores POS is in 1 to 90 DPD and out of 611 crores only 37 crores of customers have not paid a single EMI in the last three months and further in April out of that 37 crores, about 45% have paid, customers who had not paid have paid. So more or less now, the restructured book is coming down and it is behaving more as per our normal portfolio. We had redeployed all our people, salespeople back into sales, and that has yielded strong results in March. So, for small business loans, we witnessed a strong growth in March and we did the highest number of Rs. 400 crores. This was primarily because of redeploying our people back.

In vehicle finance there was a strong uptick in sales, in vehicle sales; vehicle sales are looking up. Vehicle finance has done the highest ever disbursement of Rs. 400 crores in March. The quarter also saw ever high disbursements of Rs. 950 crores.

Freight rates have been stable, load availability is high, ICRA and CRISIL expect that the vehicle sales will reach pre-COVID and the all-time high peak of FY18-19. This is because of the pent-up replacement demand, investments infrastructure by the government, strong demand from the FMCG, FMCD and logistics sector. With the economic opening up, we also see a strong demand for bus's coming back. In microfinance ex-bucket efficiencies were at 99% in March and April also they continue to be at 99%. However, we have seen some weaknesses in the districts of Erode and Tirupur.

Affordable housing finance has now shown strong growth. It has now expanded to 29 branches apart from Gujarat and Maharashtra we are now present in the states of Tamil Nadu, Karnataka, Andhra Pradesh and Telangana. Business in Tamil Nadu and Karnataka has started and AP and Telangana will go live. In the current financial year, I'm quite hopeful that we will bring back both our business volume growth as well asset quality growth.

Thank you. Over to Murali.

Murali Vaidyanathan: Good morning. In continuation to our earlier strategy where we discussed that product, programs and segments will be the key driver for liability, I think we are continuing to see that emergence of retail participation, our segments growth and our program participation actually going up. I think we are now at a CASA of 52% and retail book contributing to 90% is a very significant component. This is aided by a two-dimensional approach which we had, which we say it is a two-prong strategy, one acquire through digital and create a customer life cycle management to enhance the deepening.

Second is acquire through the phygital and deploy relationship management structure on virtual as well as physical towards getting the deepening RV. I think both has complimented and this has yielded, one RV growth two HNIs as well as mass affluence started preferring us and started deepening deeper into it. Third important thing through digital, actually we are getting the demographic dividends of millennials and new gen corporate salary people started preferring us. This is a very good story that's happening and it doesn't stop just at an acquiring. This year we were focusing on engagement as a core thing. This year we have close to 60% of our book which we call it as primary and active are interested in doing transactions. Adding to this is our TPP revenue we have a strong franchise which is focused on distribution of third-party products.

I'm happy to say that there again we clock not only in terms of revenue 40%, absolute top line of 31% also. Overall TPP top line as well as TPP bottom line and our key focus on digital and phygital is leveraging towards customer lifecycle management and engagement is going to be the key focus.

On digital front, our B2C that is a selfie range of product and B2B2C where we have a FinTech tie-up, both is showing an encouraging traction not only in terms of acquiring, we are also into payments and transaction space where prepaid, micro-ATMs and most importantly our merchant acquiring business is showing a healthy traction.

With this note we can say that deepening as yield at most importantly cost of funds coming down and landed cost of funds also having an impact and most important thing is with 65% of the portfolio being individual it has become more and more LCR friendly. We will discuss any further in going forward.

Thank you. I will hand it over to Sridharan.

Sridharan N: Thank you Murali. Good morning to everyone.

Our net interest income came at Rs. 552 crores as compared to Rs. 449 crores during the same quarter last year, registering a growth of 23% Y-on-Y.

Other income came at Rs. 148 crores as compared to Rs. 178 crores in the same quarter last year, reduction in other income primarily on account of lower PSLP fee income and treasury income. Net income grew at 12% Y-on-Y and came at Rs. 701 crores for the quarter as compared to Rs. 627 crores during the same quarter last year.

The total operating expenditure came at Rs. 375 crores as compared to Rs. 335 crores during the same quarter previous year. The employee expense reduced sequentially to Rs. 209 crores from Rs. 240 crores as there was one time reversal of excess provision for gratuity and leave salary Rs. 30.63 crores. If we do not consider this one-time reversal, the cost of income would have been at 61.5% for the current quarter that is Q4 as compared to 56.85% which we have reported. Cost of funds improved to 6.2% from 7.2% in March ’21, improvement of 100 bps.

Pre-provisioning operating profit; that’s PPOP came at Rs. 284 crores as compared to Rs. 250 crores during the same quarter previous year registering a growth of 14% Y-on-Y. PPOP as a percentage of asset improve sequentially to 4.35% from 3.52%. Profit after tax for the quarter came at Rs. 120 crores as compared to Rs. 113 crores during the same period last year.

Now moving on to asset quality, outstanding restructured pool stands at Rs. 1,500 crores. Segment wise breakup of restructuring has been provided in the investor presentation.

The Bank carries a total provision of Rs. 593 crores which includes the NPA provision of Rs. 358 crores and standard asset provision including for restructured standard asset Rs. 235 crores. GNPA came at 4.06% in Q4 FY22 as compared to 4.39% in Q3 FY22 and 3.59% in Q4 FY21. NNPA came at 2.37% in Q4 FY 22 as compared to 2.38% in Q3 FY22 and 1.52% in Q4 FY21. Provision coverage ratio stands at 42.73%, credit cost for the quarter came in at 2.45% and non-RSL credit costs came in at 1.26%. During the quarter the Bank saw additions of Rs. 409 crores as the fresh slippages and 70% of these additions were from the restructured pool.

On the capital front during the quarter the Bank has raised Rs. 550 crores via the QIP route. As of March 31st, 2022, the CRAR is at 25.16% with the Tier-I at 24.53% and Tier-II at 0.63%.

Lastly our LCR improved sharply as a Bank focused on improving quality of deposits.

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

P.N. Vasudevan: I'm very happy to inform all of you that the Board yesterday has appointed two of our senior managers, Rohit and Murali as Executive Directors which is subject to RBI and shareholder approval. All of us know that between them, they run the entire business of the Bank. Further the board has also approved the appointment of Narayan, who is a current CTO as the CIO of the Bank and Vivek, who is currently the deputy CTO has been elevated as CTO of the Bank. This move by the Board strengthens the management further and should help us focus on multiple other fronts such as our digital initiatives which we have just commenced, our digital lending platforms which we want to deliver and also look at the customer journey's across all our products and services. So that's an important announcement. I thought I'll just make it.

Now we are happy to take Q&A from all of you. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The question is from the line of Sukriti from Laburnum Capital.

Sukriti: I have two questions. My first question is on yield which dropped by about 90 bps sequentially. Now what was the reason for this, was it just product mix and how do you see this moving forward especially because from your initial comments, I understand that we don't get an immediate boost in yield from the interest rate hikes because most of our loans are fixed?

Rohit Phadke: The decrease in yields is primarily, little bit from 17.5 to 17.2 is primarily because of our diversifying into a little bit of formal lending. In each of our products we have introduced formal lending product which are to formal customers and they have to be given a slightly lower rate. That is a reason why you see a little bit of drop in yields there.

Sukriti: Rohit I was actually talking about the sequential number; it was 18.1% last quarter. So, 90 bps is also just a product.

Rohit Phadke: Yes, that 18.6% is primary because of the new products that we have launched, the home loan product, used cars and former lending in CVs.

Sukriti: How would you see this moving into the next couple of years?

Rohit Phadke: Going forward both the informal customer base will also increase, so the product mix will be in such a way that we don't compromise on NIMS or on our PAT. And lending to the formal customer is primarily because we also need to look at catering to that segment over the longer period. Obviously, we've decided as a product mix that some of the lending will be to formal customers. Hence you see a little drop in yields out there.

Sukriti: So, you think it stabilizes from thereon, correct?

Rohit Phadke: I didn't get the question Sukriti.

Sukriti: I was just repeating. You said yields would likely stabilize from hereon.

Rohit Phadke: Yes. Yields will be definitely stabilized as growth happens and I'm quite confident that we come back to pre-COVID levels of 30%-35% this year. Once the product mix gets right as we amplify growth the yields will stabilize.

Sukriti: My second question is on now PCR. I think we are very below peers here. What coverage levels would you target for PCR and how do you view it?

Dheeraj M: On PCR what we've been communicating in the past, we would like to bring it above 60% but there is a journey for it to happen. What we have done is at a policy level we have a revised our norms or strengthened it over the last 2 years. I think we put that also in the presentation. Over a period of time through that policy measure you will start seeing PCR inch up. What you're seeing optically PCR reducing because we are writing off loans which are 100% provided. That's more of an arithmetic problem which is leading to optically PCR looking low. But from policy we are looking at increasing it and also this quarter if you've seen we've tried to create some additional standard pollution of about Rs. 25-26 crores which is above the PCR. So, our intention is to buffer up provisions across standard and NPA. Policy measures have got strengthened. So, you should start seeing PCR move up. Lastly like I mentioned write-offs are leading to an optical drop in PCR because of loans which are 100% provided are getting written off. So, the denominator is looking unfavorable.

Sukriti: Dheeraj, so we are seeing two things for the next year, one is PCR will go up from 43% to (+60%). Also, that we will only see about 1.1% credit cost for the year.

Dheeraj M: Just a correction, 60% is not a next year guidance but that is where it'll eventually start moving up as an as the business grows. 60% is not something which will happen next year and why 60% is there is because policy measures will take it up to that level. And from a credit cost of next year, we are seeing 1.5% for next year, just for correction that 1.1%-1.2% is the business as usual. We are trying to factor in some of the restructuring loan which may add up. I think we've given this guidance even last quarter. We're looking at about 1.5% credit cost for the coming year FY23.

Moderator: The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka: So, two or three questions, first once you're guiding for 1.5% credit cost, so straight away you should be looking at a blended ROA of more than 2% for FY23. Is that a correct assumption or estimation?

Dheeraj M: Abhishek hopefully your words come true. But yes, that's the thought process. As we say the Bank model should deliver it to two quarter ROA and a high teen ROE. We're all hoping that it will reach us as soon as possible but yes with your assumptions we should see next year at least exit of crossing 2% ROA. We'll obviously try to replicate that for the full year if things go well.

Abhishek Murarka: Any understanding on cost to assets, we've seen of a gradual decline there but what would you think would be an exit or an average run rate for the next year?

Rohit Phadke: It's difficult to give you a guidance on what the number will be but I can definitely tell you that the direction will be downwards.

Abhishek Murarka: Any target that you have let's say either in terms of cost to income or cost to assets?

Dheeraj M: We have targets but anything we say now will become guidance. From an official guidance that is one bit but obviously cost to assets there are two things. One is the OPEX growth. Second is the duration of the loans, as we do housing and the higher ticket small business loans and new commercial vehicle. All of that will look favorable on the cost to assets. At this point in time, we don't want to put a number out.

Abhishek Murarka: Because to me it seems that instead of an exit 2% it should actually be fairly quicker to get to that 2% if you take the improvement in both costs to assets and credit costs into account.

Dheeraj M: I'm not refuting that, so your model does show it. We are also hoping that some of that come in but just don't hold it accountable to it yet. That's going to be point.

Abhishek Murarka: Another question on growth. While there has been a bounce back in disbursements but if I look at MFI or even used vehicle, this has been an excellent quarter from a used vehicle perspective for the industry. Shouldn't the growth have been more stronger there or in MFI also disbursements have bounced back very sharply for everybody but for you it's actually down 4% QOQ. So just what's happening there and what's the you know thought process?

Rohit Phadke: As I explained that we had consciously decided not to focus on aggressive growth but to focus on collections and to get the restructured pool back to normalcy. That is why we had deployed a lot of our sales staff in to collections. That 9.5% was a restructured book. We felt that it's big enough and we need to really focus on this. That's what we've done over the year. By March we had redeployed back all the sales people that we had redeployed in collections. That is why you see very strong growth in March. So going forward, yes, I do agree that used CVs have grown as an industry. We will definitely see better growth both in used CV as well as small business loans. On micro-finance we have always guided that the MF portfolio will be at about 15% of total advances. We are working towards that.

Abhishek Murarka: Just to take away from that, April onwards it will be back to growth and all your sales is redeployed into sales from collection. So, the run rate should be much stronger.

Rohit Phadke: Yes definitely.

Moderator: Next question is from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: First question is again on the kind of watch list which we provided for Rs. 37 crores. But when we look at the 60 to 90 days DPD pool itself at Rs. 140 crores and also considering the almost 70% of the slippages current quarter are flowing from the restructured pool. How confident you are that this Rs. 37 crores capturing all this right in the book?

Rohit Phadke: So, all these customers who have restructured our basic portfolio is a lending to informal customers. 85% to 90% of our borrowers are first-time borrowers. They have gone through the first wave, the second wave and the third wave. Despite going through all waves, they have now this 37 crores worth of customers were the only customers who did not pay and the people in 61 to 90, that Rs. 140 crores pool these people have paid something despite all the problems which clearly says that the intent is not bad at all. So, we are quite confident. We are seeing good collections. If you look at our resolution percentages, our resolution percentages have been very strong across all three products. In small business loans we were at 63% against a 38% pre-COVID, in VF it was 77% against 50% pre-COVID with and in the microfinance, it was 48% against 38% pre-COVID. So, resolution percentages are pretty strong. That gives us the confidence that yes, all these customers they have seen the worst and they will pay. I'm quite confident that collections, there won't be more slippages in the 61 to 90. Out of these Rs. 37 crores in April, Rs. 17 crores have paid. This Rs. 37 crores worth of customers who had not paid, Rs. 17 crores have paid in April. So that is also a good indicator.

Renish Bhuva: So just to follow up on that. The current quarter our slippages from restructured pool, it is fair to assume that all the stressed accounts have always been flowed into P&L or maybe the asset quality metrics and the remainder of the book we are quite confident of the asset quality performance.

Rohit Phadke: I feel that now we did not read the restructured book as a separate book. In fact, going forward we should look at our total book because the restructured book is also now behaving like a normal portfolio which goes under stress in difficult conditions. I'm quite confident that that we'll be able to get back to lower slippages at a lower credit cost.

Renish Bhuva: My second question is again a repeating in nature. One thing is that on the interest income, line item if we see there is a 1 percentage the sequential decline versus the AUM growth of 5% sequentially. So, is this due to the higher interest reversal on the Rs. 400 crores slippages or is there like what you highlighted in your opening remarks of focusing more on the formal segment and which is actually impacting the yields or it's a combination of both?

Dheeraj M: The interest driven impact is not high, why is there a divergence between the advances growth and the interest income is that most of the advance's growth actually happened towards the later end of the quarter. Not to put in excuses, Jan was not very good and Feb and March was the catch-up. That is actually and largely like Rohit had said March was a very strong month for us which has also aided to the advances looking much stronger than the income growth. This is one and second yields have also has come down because some of the growth has actually also happened from lower yielding products. So, it's a combination of these two.

Renish Bhuva: Maybe we can just take it offline but 100 basis points sequential decline just because of product mix change, I'm not able to reconcile but maybe we can take it offline.

Dheeraj M: It is both, don't put 90% weightage to product but it's also that the advances growth was largely toward the end of the quarter. You have to give weightage to that also.

Moderator: The next question is from the line of Jay Mundra from B&K Securities.

Jay Mundra: First is this Rs. 37 crores loans while they did not pay up for January to March? Why are they not NPA or why are they still standard?

Dheeraj M: So not all of them had their EMI on 1st of Jan to complete 90 days. Their EMIs were due during the quarter. So, if you take example of 10th Jan, they would not have fallen into NPA by 31st March.

Jay Mundra: Last quarter we had shown overall SMA for the Bank level. If you can share those numbers, it will be really helpful.

Dheeraj M: As of 31st March, the 30 to 60 bucket is about 3.6% and 61 to 90 is 1.98%. And 1 to 30 while you should not put too much of importance to it, given that the nature of the segment is about 4.8%. That's the breakup at the Bank level.

Jay Mundra: Now that we you've given a very good detail on restructuring and out of Rs. 1,500 crores, Rs. 600 crores are such that they are almost zero DPD. When do they come out of restructuring tag because anyway the moratorium period is over and they are behaving as usual when does the restructuring tag goes away?

Sridharan N: As per the resolution 1.0 and 2.0 there's a specified period for monitoring of 1-year, if they don't slip in to NPA at any point of time, during that 1-year period then it will get upgraded to standard assets from the restructured.

Jay Mundra: And then just to check; we don't have any ECLGS outstanding and any change in the timeline for the reverse merger or that remains as on track?

Sridharan N: Yes.

Moderator: The next question is from the line of Alpesh Mehta from IIFL Securities.

Alpesh Mehta: The first one is what's the rationale of creating a standard asset provision of almost Rs. 25-26 crores in this quarter because way things are shaping up quite a few lenders are reversing the COVID provision where as you guys are increasing the standard asset provision? So that's the first one.

Sridharan N: The rationale for creating the Rs. 26 crores as additional standard asset provision because the IRAC norms requirement have come in for the stress sector. On a quarterly basis we review. On that basis its Rs. 26 crores additional standard asset provision has been made and this will be reviewed every quarter actually.

Alpesh Mehta: These are the regulatory requirement related or it's just that we have a conservative stance and we are increasing the standard asset provision back. How is it?

Sridharan N: It is our own requirement but as guided by the IRAC norms actually.

Alpesh Mehta: Secondly on the cost of funds, while the system level, interest rates are rising but we have quite a few low hanging fruits as far as reducing the cost of funds. So how do you see that? I am not looking at the specific number as such but just directionally if the system rates were to go up by around 100 basis points in FY23, what kind of an impact would you see on your cost of funds because considering we had the room to reduce the liability cost?

M Natarajan: The immediate direct impact of CRR hike 50 basis points works out to around 5 to 6 basis points for our Bank. There will be an incremental impact on account of liquidity tightening as well as these 40 basis points repo hike and as Vasu was saying we do expect out of the couple of hikes of 25 basis points each for the rest of the year. So going forward we do expect the rate to slightly go up, may be by something between 15 to 25 in the next 6 months. But that will be only on the incremental deposits and also if you consider incremental funds, what is 50% will come from CASA which we don't see much impact in CASA funds. So, the net impact we do see may be 10 to 15 basis points, we can see hike in; what was originally envisaged.

Alpesh Mehta: Just a clarification. This yield thing on a sequential basis, the slippages that happened from the restructured pool, were there any interest reversals related to that and that could have impact in the fourth quarter yields?

Dheeraj M: Alpesh, there is no interest reversal on that restructured pool which has an impact.

Alpesh Mehta: But Dheeraj, but the yield drop is quite is baffling in the sense the way it has fallen on a Q-o-Q basis and especially in a quarter like this?

Dheeraj M: To quantify it, see in Q3 it was about Rs. 15 crores was the interest reversal and in Q4 it's about Rs. 14 crores. It's not an extra delta which has come in.

Alpesh Mehta: Last question on the other operating expenses now. How do you see that line item shaping up because over the last three quarters we are seeing that the other operating expenses are stabilizing between Rs. 200 to 210 crores. So, will this kind be a, would your run rate going forward, that some kind of an inflation linked to it or there could be a higher other operating expenses line items?

Dheeraj M: The Q4 number, it's a slight aberration. So, if you take a quarterly average, I think that's the number you should look at for the year. So somewhere at Rs. 220-230 crores and obviously this year Q1 there would be some employee expenses which will come in. So, we will have to add that.

Alpesh Mehta: No, I was talking about the other operating expenses line items Dheeraj, because that numbers since last three quarters is between Rs. 200-210 crores and it seems to be stabilizing at around that level?

Dheeraj M: In our slide #17, that Rs. 148 which we have put, is that what you are referring to the net of digital expense?

Alpesh Mehta: Yes. So basically, I am just going through the BSE release, that the normal…?

Dheeraj M: That is gross expenses.

Alpesh Mehta: I am talking about those gross expenses.

Dheeraj M: Gross expenses will increase because foray into digital, digital related expenses will come in but like what we said that's almost pass through because there is a corresponding income. Rather you look at what we have put in the slide in terms of operating expenses which is then Q4 last year was Rs. 112 and Q4 this year has been Rs. 148. That's a reference point because its net of that pass-through expense.

Alpesh Mehta: But Dheeraj even in this case, if you look at 2Q FY22-3Q FY22 and 4Q, all the three quarters are in the range between Rs. 145 to 152 crores, right?

Dheeraj M: Yes.

Alpesh Mehta: That line which you used to increase at the rapid pace, now it's been stabilizing at somewhere around Rs. 145-150. So just from a modeling perspective should we just add little bit of inflation to this number and that?

Dheeraj M: Yes. So, some of the key drivers into that was some of the large spends we did related to technology, related to digital marketing, which we have been moderated. If you look at our quarterly customer acquisition you will see some of that impact. So now its moderated and going forward you can just put a slight increment to it and not a sharp jump.

Alpesh Mehta: Then in that case, at least our guidance of 2% exit ROA seems to be extremely conservative, right? Even if whatever unless and until we are factoring in a further margin decline. Otherwise, 2% ROA exit 4Q seems to be extremely conservative at this point in time? Because there is an operating leverage which is clearly visible given this kind of an OPEX growth plus obviously credit cost decline. So, unless and until you would have a bigger margin drop then it's a 2% ROA seems to be extremely conservative?

Dheeraj M: Point taken like I just said. Hopefully it all comes in place.

Moderator: The next question is from the line of Shreepal Doshi from Equirus Securities Private Limited.

Shreepal Doshi: First question was with respect to restructured pool. Last quarter you had indicated that if the restructured pool was close to Rs. 1,764 crores and the detail that you had given for this quarter which is the outstanding number, right?

Rohit Phadke: Yes.

Shreepal Doshi: If you could just give say Rs. 1,764 to Rs. 286 has slipped to NPA already and Rs. 37 crores will eventually slip to NPA if they are not being repaying, fair understanding?

Rohit Phadke: We are not saying Rs. 37 crores will eventually slip to NPA. I am saying that Rs. 37 crores is at risk. Out of Rs. 37 crores, Rs. 17 crores have paid an EMI in April. We can't really assume that, that entire Rs. 37 crores will go to NPA. I am just being conservative and that is why I am saying that Rs. 37 crores is at high risk.

Shreepal Doshi: We have already recovered or we have got repayment of Rs. 26 crores in the last 3 months from the restructured pool. Is that the fair calculation?

Rohit Phadke: Rs. 37 crores cost worth of customers did not pay a single EMI in Jan-Feb-March. But surprisingly in April out of that Rs. 37 crores, Rs. 17 crores have paid one EMI. So, Rs. 20 crores is remaining.

Shreepal Doshi: Just wanted to understand, the repayment in the restructured pool like are the customers repaying the EMI that is expected or they are also paying more than what is expected out of them?

Rohit Phadke: It's a combination of both. Some customers are paying only one EMI, some customers are paying one EMI and little more to get back to normal. So, we have both kind of customers and there were obviously some customers as I said who had not paid at all. So, we have a combination of all three but customers who are paying are trying to get back and I am very happy that whatever efforts that we have taken it has helped this class of customers to get back into business to increase their cash flows. So, we do see a lot of customers who pay a little bit more than one EMI to ensure that the next three-four months they should come back in line.

Shreepal Doshi: One question was with respect to so we have seen branch additions during the quarter. So, do we expect that the same momentum will continue for the next year also like wherein we are adding branches?

Murali Vaidyanathan: There are two aspects – as we are developing digital mode, where the onboarding as well as customer experience is taken care and it is taking care of our segments then digital onboarding becomes a particular parameter through which we are onboarding. Today it contributes to our 90% of our sourcing. And addition of branches at key locations will continue to happen very incrementally because if you see there are lot of developments that's happening at the front end. Today if we can ensure customers can do a do-it-yourself mode, we can complement it by virtual RM and then having a branch as a Hub and Spoke model to deepen their relationship, the incremental need for adding more locations doesn't come in at this point. So, for us to look at it we may not need not more than 10 or 15 branches for this year, maybe as we scale up next league, once we start exploring, we will think about it maybe next year. So, today there is an operational leverage available in all the locations where we are and we are supporting it through digital mode.

Shreepal Doshi: Could we get the split of provision for this quarter of the Rs. 123 crores that we have incurred? In terms of what we do, so Rs. 26 crores of that is towards additional standard asset provision. What would be the remaining?

Sridharan N: The breakup of Rs. 123 crores is, on a NPA provision write-off is at Rs. 144 crores and stand asset provision, there is a reversal of Rs. 21 crores on account of moving some restructured to standard actually.

Shreepal Doshi: One last strategy related question. We've always been following this strategy wherein we have asked our employees to focus on collections after a difficult environment. And then again, we have given the strategy to focus on the business momentum side. Don't you think we missed out the bus in terms of market share losing or losing our good customers to competitors because in each of the product segment, we have been present for almost 6-7 years now in our product bouquet. So, we are not able to deliver more than 20% growth. I'm just saying that, are you looking at changing that strategy because we loose out on the bus when the quarter is good or when the momentum is good or when the demand is good, we are focusing on collections probably?

P.N. Vasudevan: See this is not a quarterly kind of a change of strategy from the Bank. Normally, under normal circumstances, our portfolio quality has always been consistently very good all through the years from 2007, when we have started, we have never had an asset quality issue ever in the company, as a company and then as a Bank. It is not like on a quarterly basis there is a change of strategy to focus on sales or collections. Last 2-years has been an extraordinary period of time and when in the first wave, wave 1 when we announced the moratorium as per RBI norms, I think we have mentioned this in long time back in many quarters back that 97% by value of loans and 90% by value of a number of customers had availed the moratorium. Our customers are from that kind of a financial background. That's a large number of customers avail the moratorium and then when restructuring was to be offered last year, 9.5% of the book customers took the restructuring. So, these are really extraordinary times and under this kind of extraordinary situations as a prudent banker, there is no way we are going to say that we are going to close our eyes and push growth and asset quality always has to come right on top and that's what we did.

Now the asset quality is completely back under control. So, the focus on growth will be back to normal levels. Now, if you ask me next quarter or two quarter down the line, will we change our stance again? My answer to you would be that if again we are hit with a once in a century kind of a stuff, I don't know what I will do. But so long as we are not hit with one more once in a century, kind of a Black Swan event, then I think there's no way that things will change and our focus on sales and collections will go parallelly. It's only this extraordinary situation where our strategy has to also be aligned to those events. But under normal circumstances, we have never had an asset quality issue ever in the company as an NBFC or in the Bank after we converted into a Bank. That's the scenario and change of strategy will clearly be in line with some extraordinary event which may happen but so long as such extraordinary events do not happen, I don't see any issue at all from our asset quality or growth perspective.

Moderator: The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka: One question is on your restructured pool, what would be the provisions you would be carrying?

Sridharan N: It's Rs. 152 crores.

Abhishek Murarka: And safe to assume that as this unwinds, so 1-year of satisfactory performance, then proportionately this provision also starts getting reversed?

Sridharan N: Yes. Actually, there is a 1-year specific period based on the performance. It will move from restructured standard asset to the normal provision actually.

Abhishek Murarka: The same thing for this quarter, you said there is a Rs. 21 crores reversal on standard asset provisions but that's after making another Rs. 26 crores provision for standard assets. Actually, the reversal would be higher? It would be around Rs. 47-50 crores?

Sridharan N: The reversal of Rs. 51 crores as I told you, no actually when there are two things happens one there's a rundown then the restructured standard asset provisions comes down based on the residual date and second thing is that when the restructured standard assets moved to the NPA, then the NPA provision apply as per the IRAC norms and the restructured standards provision is a reversed.

Abhishek Murarka: So, this is the effect of reversal of that provision?

Sridharan N: Yes.

Abhishek Murarka: Can you share the yields on some of your main portfolios like MFI, SBL, SME and vehicles?

Dheeraj M: Just to reiterate, the Rs. 150 crores is a provision on standard assets of restructuring.

Abhishek Murarka: So, on Rs. 1,500 right because all of that is standard?

Sridharan N: It's only on the standard. We have provided the slide, where there is a total Rs. 1,500 crores is the restructured assets out of is 286 NPA. So, 286 NPA comes under NPA provision as per the IRAC norms, as per the Bank policy. The remaining is that is around Rs. 1,200 crores has the standard asset provision.

Abhishek Murarka: And the yields?

Dheeraj M: We will get it included in the next quarter. It doesn't change much. I think we used to give it 2 years back. There's not been material change from that. So, pardon us this time. We'll try to put in next quarter. Some of it is also competition sensitive which is why we are a little hesitant.

Abhishek Murarka: The reason I'm asking is if it is the same as 2 years back or 1 year back or whatever, then the drop in yields seems even more inequitable and that is something I was trying to figure out?

Dheeraj M: Understood. We will try to get it and incorporate it next time on gross yields.

Moderator: The next question is from the line of Abhijeet from Kotak Securities.

Abhijeet: The first question is on loan growth for next year. Now given that the liability side is looking pretty okay. Most of the asset quality challenges are also behind. What sort of number are you looking for the next fiscal year?

Rohit Phadke: So, Abhijeet, as I answered this question twice while you see, it's like this. Pre-COVID we used to grow at about 30%-35%. I'm quite confident that with all the sales people being deployed back into sales and market looking up, we are quite geared to do a growth of about 30%-35% this year. With portfolio qualities also seeming to coming back so I'm quite confident that we will be able to grow in all the three businesses and all the products that we have. So, our growth up 30%-35% quite confident of.

Abhijeet: Second question is for Vasu sir. In terms of the couple of appointments that you announced on the board; just wanted to get your thoughts or the views of the board in terms of what has driven this elevation given that both of them have been with the Bank for close to about 2 years or less than 2 years? So, just broad thoughts on that could be really helpful?

P. N. Vasudevan: Basically, this is a question of strengthening the management team. We have elevated two people to the board and in the IT also we have elevated the CTO to CIO and the Deputy CTO to CTO. Obviously, it means that below them there'll be some more strengthening of people. It's basically about the entire exercise is to strengthen the management team, to create a good strong pipeline of high-quality people in the system and also enabling people to take larger roles and larger responsibilities in the Bank. There's lot of work to be done. The business-as-usual part of the Bank, a lot of work to be done, getting the Bank future-ready, again a lot of work to be done. We need very senior people focusing both on the BAU as well as the future ready part of the Bank. These elevations are largely meant to support those exercises that we are currently undertaking and to ensure that the Bank is run efficiently on the current businesses and product lines and service lines. While we are also putting in lot of efforts to get ourselves geared up for the future of banking as the banking model evolves going into the future. Of course, nobody knows how the banking model is going to evolve but there's lot of work that we have been doing internally, trying to predict or trying to model what kind of modeling that will emerge. We want to be at the forefront. We clearly want to be at the forefront of any changes that keeps happening or will happen. We already done a few initiatives and it's been I mean we have been very pleasantly surprised and happy to see a tremendous amount of result that we have been able to achieve and the initiatives we have taken so far. This exercise of strengthening the management team is really to further progress on those initiatives to ensure that we have enough good quality people who can focus on future ready part of the Bank as much as on the BAU. So that's basically the thought process.

Abhijeet: Just in terms of any timelines on the Universal Bank conversion that you're looking at? That's the final one?

P. N. Vasudevan: See on the Universal Bank, the guidelines says that at the end of 5 years we could apply. There's been lot of discussion between the association and RBI. We are kind of all of us are, they are awaiting some kind of a feedback. So, there's nothing much to specifically to give feedback on that just at this point in time. We'll have to just wait for some more time to see whether we are able to get some kind of an indicate from the regulators as to how we should proceed on that.

Moderator: The next question is from the line of Punit from Nomura.

Punit: Just two data keeping questions from my side. One can you provide the segment wise breakup of collection efficiency for SBL, vehicle, MFI? For MFI I think you highlighted it’s close to 99%. For SBL and vehicle if you could provide that?

Rohit Phadke: X bucket collection efficiencies for both SBL and vehicle finance were at 99%. In micro-finance also it was 99% in March 2022.

Punit: Another thing can you provide the 30 to 90 DPD breakup for all the three books?

Dheeraj M: So, small business loans is 5.2%, commercial vehicles is 7.8%, micro-finance is 6%.

Moderator: The next question is from the line of Renish Bhuva from ICICI Securities.

Renish Bhuva: One question on the operating leverage part. I mean if we look at the annualized cost to asset in Q4 adjusted for that Rs. 30 crores, it works out to be a 6.5 odd and now considering the kind of digital capabilities we have in place and also considering that a large part of investment towards building that platform is over and again having a liability customer base of about (+2) million. At the strategic front what is our cross-selling up-selling strategy and what sort of operating leverage you expect over the next couple of years?

Murali Vaidyanathan: That's a good question. Today like you are saying liability customer, asset customer, we want to see customer as one universe and want to develop a data centric approach and propensity-based model. That data warehouse and data methodology has just started. And as you know data de-coding and re-coding is the most difficult part. We are getting into lot of science behind it. We are looking at cross-sell and up-sell at a customer level at every incremental opportunity. Today how we are doing it is for example a liability customer, you sell protection or investment or trading. Now we have expanded that to used vehicle as well as a gold loan. Now we are expanding that gamut of product by the incremental approach through digitals. We have tied up with HDFC Bank credit card so that white label card is also coming into picture. We have our own affordable housing. The propensity-based model is going to be an ongoing exercise. It is going to be a defined approach where a cross-sell team will be dedicated in promoting this cross-sell at a defined percentage. Those percentages we can't disclose now but the work has started on qualifying based on propensity approach.

Renish Bhuva: Maybe if you can just throw some light in terms of what is the team size, how the lead generation happens and ultimately how it is closed?

Murali Vaidyanathan: Today the team's size, we are leveraging on the existing manpower which means we have a lead management system through which we actually do the propensity and year mark directly to the relationship managers or the branch managers. They execute the cross-sell and we fish the data from the back. For monitoring and measuring we have six-member team as a cross sale which we want to take it up to say another six more people with a data specialist included in that core particular team.

Renish Bhuva: Do you feel this kind of a cross-selling, up-selling, will yield a separate manpower or you're confident that?

Murali Vaidyanathan: Doesn't need. It only enhances their incremental productivity of the existing manpower. See increasingly earlier it used to be a cross-sell team used to be a different in traditional Bank and new to Bank will be different. As a platform centric and as I said in the first point if you have customer centric model and your engagement and CLCM and the propensity is based on that, then you don't need incremental manpower. You hit enhanced productivity out of so that's why all our campaigns today this year are bundled campaign. It is not a one product campaign, it's a customer centric where two or three products together is given so that the discussion at the front-end becomes more and more relevant.

Renish Bhuva: Any rough mathematics let's say assuming a product per customer increase let us say by FY23? What kind of a benefit we get on the leverage side? I mean does that also mean that my cost to asset will also come down by 20%-25% because most of the customer acquisition cost will already been there in the P&L, I mean does one look at it?

Murali Vaidyanathan: PH greater than 2. There is two product holding is we have 28% of the customer and which we want to take it up close to 34%. PH 3 that is going to be the next level on the mapped book. PH 3 is going to be a very critical indicator where a customer is assigned a resource. We are looking same 24% what we are there. So, which means the ATS and RV growth moment the customer crosses to multiplies by 1.5 to 1.8 X assuming you have Rs. 10 lakhs it goes up to Rs. 15 or 18 lakhs at a relationship value and automatically this will take us towards the profitability also. We have given that product penetration also. We are looking at a 34% of our base having two or more product holding from our Bank platform.

Renish Bhuva: And what is that number currently? You said 20%?

Murali Vaidyanathan: 24% and it will be a dynamic base. It will not be on a static base.

Moderator: Thank you. Ladies and gentlemen, we'll take that as the last question. I now hand the conference over to Mr. P. N. Vasudevan for closing comments.

P. N. Vasudevan: Thank you all. Thank you so much for being with us today and looking forward to your continued support to Equitas and wishing you all the very best. Thank you. Bye-bye.

Moderator: Thank you very much. On behalf of Equitas Small Finance Bank Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.