"Equitas Small Finance Bank Limited
Q2 FY2022 Earnings Conference Call"
October 30, 2021

MANAGEMENT: **MR. P.N. VASUDEVAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - EQUITAS SMALL FINANCE BANK LIMITED**

MR. SRIDHARAN N – CHIEF FINANCIAL OFFICER - EQUITAS SMALL FINANCE BANK LIMITED

MR. MURALI VAIDYANATHAN – SENIOR PRESIDENT AND COUNTRY HEAD, BRANCH BANKING, LIABILITIES, PRODUCT, AND WEALTH - EQUITAS SMALL FINANCE BANK LIMITED

MR. ROHIT PHADKE – SENIOR PRESIDENT AND HEAD RETAIL ASSETS - EQUITAS SMALL FINANCE BANK LIMITED

MR. RAM SUBRAMANIAN – PRESIDENT & HEAD CORPORATE AND MSE BANKING - EQUITAS SMALL FINANCE BANK LIMITED

MR. NATRAJAN. M – PRESIDENT & HEAD TREASURY - EQUITAS SMALL FINANCE BANK LIMITED

MR. DHEERAJ MOHAN – SVP & HEAD STRATEGY, IR, BI & CUSTOMER EXPERIENCE - EQUITAS SMALL FINANCE BANK LIMITED

MR. RAHUL RAJAGOPALAN – DVP STRATEGY AND IR - EQUITAS SMALL FINANCE BANK LIMITED

MS. SRIMATHY RAGHUNATHAN – CHIEF FINANCIAL OFFICER - EQUITAS HOLDINGS LIMITED - EQUITAS SMALL FINANCE BANK LIMITED

Moderator: Ladies and gentlemen, good morning and welcome to the earnings call of Equitas Small Finance Bank Limited financial performance for Q2 FY2022. We have with us today Mr. P.N. Vasudevan - MD and CEO, Mr. Sridharan N - CFO, Mr. Murali Vaidyanathan – Senior President and Country Head, Branch Banking, Liabilities, Product, and Wealth, Mr. Rohit Phadke – Senior President and Head Retail Assets, Mr. Ram Subramanian – President and Head Corporate and MSE Banking, Mr. Natrajan M – President & Head Treasury, Mr. Dheeraj M – SVP and Head Strategy, IR BI & Customer Experience, Mr. Rahul R – DVP Strategy and 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. P.N. Vasudevan. Thank you and over to you Sir!

P.N. Vasudevan: Thank you, and good morning to all of you and thank you for taking the time to attend this call. I hope you had the time to go through our quarterly performance given that there are slew of results yesterday.

The second quarter was very good on many fronts. The vaccination drive has picked up significantly and the fear of third wave is receding. We have done our bit also by helping to vaccinate over 2 million people from the low income segments and rural by working with various local governments. We are looking forward with lot more confidence to an undisturbed market in times to come.

Collection efficiency came back sharply during the quarter helping reduce the bucket size across the DPDs. Lead indicators like disbursement, cheque bounce ratio were trending to the pre-COVID levels. As you would have noticed our X bucket collection efficiency for the three large segments, small business loan, vehicle finance and microfinance are almost back to the pre-COVID levels, which provides comfort that the first quarter lockdown induced stress build up is behind us.

As indicated in the last quarter we have restructured around Rs. 1,401 Crores during the year and continue to maintain our guidance on credit cost of 2.5% for this year. We also hope to see a loan growth rates revert back to 25% plus soon.

On the liability front we continue to gain market share and we are seeing a healthy traction on customer acquisition, deepening increased product holding and improved customer activity. Our CASA ratio remains quite healthy. We are also expanding into Kerala with a few handful of branches, Murali will take you through it in more details shortly. We have seen good traction on some of our digital initiatives rolled out earlier. We should expect digital channels to remain a strong support for our liability ramp up. Given the improvement in the environment we believe we should be back to our normal levels of performance from the third quarter.

Moving on to the status of the merger of the holding company with the Bank, SEBI has relaxed the three year 20% promoter lock-in requirement for the holding company which is a very good support that we have received from SEBI. This significantly crunches the timeline for the merger and now the Bank is working towards meeting the minimum public shareholding requirement of 25% in the Bank through a QIP, which the board approved recently and this should clear the path for the merger. We continue to expect to complete the entire merger process by the third quarter of next financial year.

Lastly I am happy to share that Equitas has entered into an engagement with IFC to help sharpen our ESG focus on gender and climate financing. This should help us in improving our disclosures around these themes and provide innovative financing opportunities that can help us continue to grow responsibly. Thank you so much and now I hand over to Rohit.

Rohit Phadke: Good morning everybody. Last quarter saw disbursements moving to an all time high, collection efficiencies improved across buckets, increased vaccination and opening up of businesses helped improved cash flows. GNPA in small business loans came down to 3.6% as you are aware that these are the loans given to informal customers and are priced in mid teens to mitigate the risks, it forms 45% of our current retail asset book.

Microfinance also saw improved collection efficiencies. X bucket efficiencies were at 97.6%, but still below the comfort level of 99%. Attendance at center meetings have improved and overall collection efficiencies have improved substantially, making us optimistic about further improvements in Q3.

Our affordable home loan business is gaining traction and we are expanding in the south, we have started disbursements in Tamil Nadu. Our initial presence was in Gujarat and Maharashtra and we are expanding into Tamil Nadu and Karnataka. The team strength in affordable housing has gone up to now 200.

In vehicle finance too we saw a strong demand for credit and our market share in new small commercial vehicles has improved significantly, it has moved up from 6% to 9% in the markets that we operate in. Diesel prices have gone up and yes this time freight rates have also gone up significantly. Last quarter saw diesel prices going up by 26%, but freight rates gone up only by 7% to 10%. This time freight rates have gone up significantly and the transporters are remunerated sufficiently and as a result of this we saw all manufacturers ramping up demand in August. CV sales have moved up, but CV sales are significantly down as compared to pre-COVID levels. Freight rates have increased because of the availability of load owing to increased manufacturing and ecommerce activities.

The formal segment seems to be gaining strength which is indicated in rising manufacturing activity, increasing retail sale of luxury goods and high and mid segment cars. It is a different proposition that cars are not available but that is primarily because of the semiconductor chips, but demand is very strong and bookings are very strong. However there is always a lag in improvement in the informal economy which is indicated by a degrowth in two wheelers, two wheelers is a barometer of how the informal economy does. Two wheeler sales were down by 17%. The silver lining is that monsoons have been good and tractor sales are at a record high. They have grown by 10% year-on-year and H1 saw tractor sales of 5.5 lakhs, the highest tractor sales that we have seen. So the agricultural produce and the agricultural economy seems to be doing well. I do hope and I am sure that the formal economy did well in the last quarter and in this quarter the benefits of the formal economy going up will trickle down to the informal economy which is amply supported by rising collection efficiencies and this quarter we will see a further and better growth in business and collection. Thank you. Over to you Murali.

Murali Vaidyanathan: Good morning friends thank you all for joining for the call. So just to want to give you an update on how our liabilities, branch banking and overall account acquisition and deepening initiatives are moving across. So we said in the last call we are adopting a 3I approach where we say that we innovate on products and processes, improvises on operational systems and implemented through the channels, we are glad to say that we have grown on a topline which is quality of customer acquisition through the physical channel and also the demographic excellence we are getting it through the digital channels both complementing has actually yielded us a fantastic growth of close to 30% on the topline in terms of number of accounts. Now just to give you a rough cut we are sourcing towards to 2 lakh plus CASA accounts every month and that is one good part. Now the physical part where we say that branches and the nearest catchments where we look at the geographical excellence and penetration and we are becoming a really a neighborhood bank where we are seeing an absolute growth of 81% in terms of number of accounts getting sourced in terms of numbers and year on year growth of NTB picking up close to Rs. 400 Crores in terms of initial payment. This shows a quality of customers that comes in through the geographical excellence where our channel through VRM and mapped book management is playing a very instrumental role. So moving up the value chain, high value that is HNI and mass affluent continue to support us the one prime reason why we are able to get this act right is clearly focusing through the marketing where we are building a brand where we continue to believe beyond banking is going to be the future like Vasu said, we are also aligning with IFC on that side and increasingly we find HNI and mass affluents getting aligned to this core value of the empowering deserving community through saving through us so I think that is one big, big uptick.

So through all these initiatives we are glad to say that our CASA percentage is at close to 45% to 46% and retail has moved up to 87% of our total book and the important part is out of this entire retail book 62% to 63% is individual so that is a very big sign and I think these encouraging signs is happening because we have one of the best products that anyone can offer, we are one of the customer easy professes and do it to yourself and leveraging digital not only for tie ups and distribution, but also easing out do it yourself and you would have seen it in our new mobile banking experience UI-UX which we had recently revamped is giving us a very good edge overall. So I think a combination of this helped us and adding to this saver segment we also expanded our self into a spender segment through debit card and our debit card issuance and activations and active cards in the market has gone up substantially. I think if any questions we will take that later. So saver and spender taken care now we have launched our three in one last quarter which is giving us a good edge for the investor community and it is helping us to grow our AUM and now we are ready with our ASBA too. So overall the trajectory and the target segments and most importantly segmentation is helping us. We continue to keep customer first as a prime driver and will focus on enhancing relationship management and service. Thank you. Hand it over to Sridharan.

Sridharan N: Thank you Murali good morning to everyone. Our net interest income came at Rs. 484 Crores as compared to Rs. 461 Crores during the same quarter last year. Other income came at Rs. 148 Crores as compared to Rs. 55 Crores in the same quarter last year primarily driven by processing fees and income from interchange income and prepaid cards. Net income grew 22% and came at Rs. 632 Crores for the quarter as compared to Rs. 516 Crores during the same quarter last year. The total operating expenditure came at Rs. 395 Crores as compared to Rs. 300 Crores in the same quarter last year and Rs. 358 Crores in the previous quarter. Increase in overall Opex is primarily on account of investing in technology and brand building exercise.

Pre-provisioning operating profit PPoP came at Rs. 195 Crores as compared to Rs. 211 Crores. PAT for the quarter was affected due to provisions made on restructured accounts and PAT for Q2 FY2022 came at Rs. 41 Crores.

Moving onto asset quality provisions and restructuring, we have restructured advances to the tune of Rs. 1401 Crores these forms around 7% of the gross advances. Segment wise breakup of restructuring has been provided in the presentation. The bank carries a provision of Rs. 196 Crores towards the restructured book of Rs. 1,401 Crores. Coming onto GNPA, GNPA for Q2 FY2022 came at 4.64% as compared to 4.58% in Q1 of FY2022 and 2.39% in Q2 FY2021. Net NPA for Q2 FY2022 came at 2.37% as compared to 2.3% in Q1 FY2022 and 1.09% in Q2 FY2021. We saw upgradations and recovery improving sharply. The provision coverage ratio stands at 50.09%. Lastly on the capital front as of September 30, 2021 the total CRAR stands at 22.21% with tier I of 20.96% and tier II of 1.25%.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shripal Doshi from Equirus. Please go ahead.

Shripal Doshi: Congratulations on the sturdy deposit performance that we have been able to deliver over the last few quarters. So my question was firstly with respect to other income and Opex so I think the higher other income and higher Opex is it because of the prepaid card and micro ATM business that we are doing and what will be the net income from that rather than looking at both the aspects.

Murali Vaidyanathan: You are right as you know in a prepaid as well as micro ATM both these businesses we reach customers, we have 85/15 at the revenue sharing methodology our absolute transaction has gone up so as a byproduct of that your revenue will also go up cost will also go up so it is proportion it is we are not out of pocket, we are pocketing the 15% of the revenue in the entire transaction.

Shripal Doshi: And secondly on the restructuring side so restructuring 1.0, I supposed that was Rs. 430 Crores that number now stand at Rs. 140 Crores and the restructuring 2.0 is Rs. 1,400 Crores so overall restructuring as on 2Q would be Rs. 1,541 Crores is that a fair understanding.

Sridharan N: See the restructuring on account of 2.0 is Rs. 1,401 Crores and the Rs. 140 Crores is out of the 1.0 otherwise we have restructured under RSL 1.0 419 Crores so the total was Rs. 1,540 Crores of the total restructured including 1.0 and 2.0.

Shripal Doshi: Sir so that Rs. 419 Crores has run down to Rs. 140 Crores because some of it has slipped to NPA right during the last six months.

Sridharan N: No actually the RSL 1.0 is Rs. 419 Crores of which Rs. 77 Crores has dipped in to NPA, but we are as per RBI guidelines we are allowed to restructure whatever the terms and other things out of the 1.0 out of the 140 Crores we have done actually under 2.0. So if you add the Rs. 1,400 Crores of RSL 2.0 at Rs. 140 Crores so the total under 1.0 carried to 2.0 plus 2.0 is Rs. 1,540 Crores.

Shripal Doshi: And sir just qualitative comment with respect to how we are seeing asset quality trends in a vehicle finance segment because there if we look this segment is having highest share in the restructuring book further like the 31 to 90 DPD detail that we have given that was highest during the last quarter, although it has come off sequentially, but if you can just give some color what profiles are we having stress or is it used or new vehicle some geographic specific trends also if you can share here for this particular segment.

Rohit Phadke: There are no distinct geographic trend difference anywhere across the country. We similar improvement across. First of all you have to understand that this is a earn and pay asset if the customer buys these asset earns by transportation and then pays the EMI, also maintains this livelihood so obviously the customers who had restructured in the first COVID wave had already got some stress because of the COVID wave one and it was natural to expect that COVID wave two will hit them much harder then customers have sustained the COVID wave one so what has happened in the market differently this time is that unlike after COVID wave one the COVID wave two immediately hit increased vaccination and opening of businesses has increased phase in the market so there is increased cash flow, which is reflected in collection efficiencies even in vehicle finance if you look at the 1 to 90 all our overdue buckets in vehicle finance have come down substantially so to give you a qualitative flavor one is improved freight loads because of increased manufacturing and ecommerce activities, secondly farm produce see actually agriculture has done pretty well and farm produce is there because of these two activities we do see increased activity amongst the vehicle finance customers and we do hope that quarter three we will keep seeing this collection efficiencies improving further and a robust reduction in GNPA.

Shripal Doshi: And sir any stress so the restructuring that we have done of Rs. 600 odd Crores what would it be from the used and the new sort of segment.

Rohit Phadke: Shripal I do not have, we will give you the figure.

Shripal Doshi: Sure thank you sir thank you so much.

Dheeraj M: Just to answer the other question you first asked. Our other income is about Rs. 148 Crores if I net that Rs. 148 Crores for the expense towards the digital expenses it is about Rs. 42 Crores so net you can see Rs. 106 Crores.

Shripal Doshi: So that is the income that we have made.

Dheeraj M: Yes, correct adjusting for the payout we do so Rs. 106 Crores you would read other income from Rs. 148 Crores if you net that expense is Rs. 106 Crores.

Shripal Doshi: Sir just one last question with respect to restructuring only like we have been always our restructuring is within our guidance which we had given during the last quarter so how much we will see slipping to NPA.

Dheeraj M: In the restructuring we did this in the first round last year we have already I think mentioned there about 17% or Rs. 77 Crores has moved into NPA. In the second restructuring which we did during this year billing has just started so about 85% of the pool is still yet to start their EMI so we will know in this quarter.

Shripal Doshi: Got it sir. Thank you so much for that and good luck for the next quarter.

Moderator: Thank you. The next question is from the line of Renish Hareshbhai Bhuva from ICICI Securities. Please go ahead.

Renish H Bhuva: Sir first question is on our liabilities fee income so we have seen the customer attrition run rate has almost gone 6x, 7x in last four, five quarters on a pretty stable Opex, but when we look at the liabilities fee income it has been quite volatile let us say in Q4 it was Rs. 25 Crores then it come to Rs. 17 Crores and then again it eases back to the Rs. 24 Crores so what is happening here and what sort of a sustainable liabilities to income we expect on this significantly higher customer acquisition number.

Murali Vaidyanathan: See sum of a Rs. 24 Crores is one part of it so why is it increasing as I had covered in my earlier discussion there are three reason for it one is debit card issuance and activation and MDR what we get it that proportion has gone up almost 2x which we used to make earlier say X we are making it 2x. Second is, since the number of customer as I said we are coming in HNI and HNI+ our ability to sell TPP that is investment and insurance solution through the mapped book and relationship management has gone up that is a real reason if you see the number of policies and number of premium collected in our slide it is almost double of what we are doing at the earlier stage and third important thing is that the Digi banking revenue where you do it for payment like micro ATM, like prepaid card, with all these avenues summing up of payment plus transaction plus debit card issuance plus activation and MDR spend then we also have POS, which is POS sale where we have a aggregator model and direct selling model we already have close to 10,000- 12,000 so that is also getting in to MDR so our issuance is doing acquiring is doing faster issuance and acquiring pieces yielding revenue back these are all minor revenue but the majority prescreens as I said earlier DC issuance investments and insurance proposition and digital revenue these three constitutes that is the reason it has moved up of 17 to 24 the incremental 7 has come from this three enhancement of our proposition.

Renish H Bhuva: No sir so basically that investment rated income that captures in liability piece or it capture somewhere else.

Murali Vaidyanathan: It is captured in liability piece only.

Renish H Bhuva: So my question is that let us say in last quarter we added almost 5 lakh customer this quarter we added close to 7 lakh customers so incrementally of course this quarter the fee income has been higher but if I have to look at the last quarter when we added 5 lakh customer the fee income actually fell from 25 Crores to 17 Crores so I was just wondering why it is that.

Murali Vaidyanathan: See it is directly proportionate to the number of customers you covered through protection. There is customer lifecycle management where we define the customer lifecycle within the first 60 days bucket and we do continuous inducement activities and those things are yielding results so increasingly if we continue this results we will see this trajectory moving up. So it spread across customers.

Renish H Bhuva: Sir so next question is on the again on the restructuring pool sir what is the total restructuring pool 1.0, 2.0 both put together.

Sridharan N: Both 2.0 and 1.0 put together is Rs. 1,820 Crores with a breakup of Rs. 1,401 Crores is 2.0 and Rs. 419 Crores is 1.0 and out of the 1.0 Rs. 140 Crores we have restructured within the RBI guidelines of 2.0.

Renish H Bhuva: And sir what is the average moratorium we provided on the restructured at 2.0.

Rohit Phadke: The 2.0 we have provided very less moratorium, the minimum is 1 month and the maximum is 3 months so average will be about 1.5 months we have given very less time for the second moratorium.

Renish H Bhuva: And since we are saying 85% of the pool will be due for EMI next month.

Rohit Phadke: Yes.

Renish H Bhuva: And just repeating sir I mean do we have any estimate what sort of slippages we might see from this pool.

Rohit Phadke: I have no numbers but see what I can tell you is that as I said earlier that the restructured 1.0 customer was already under stress during the first wave so the second wave immediately hit him so obviously he found it tougher to comeback I think the restructure 2 pool we feel easier to come back so I think things will be better that the quality to come at I can definitely carry it. See these people were now all of these people were standard in March so till March so they had paid very well so they went through the initial COVID wave stress on their own without taking any support and that is the reason why I am saying that it could be better.

Renish H Bhuva: I think your 17% slippage from restructure 1.0 also suggest that the collection of customers are way better from of course we hope for the best our customers so 2.0 as well so sir just last clarification on the credit cost side which we guided for 2.5% for entire year so this is including provision towards the restructuring what we are getting.

Dheeraj M: Yes absolutely that already has been done so when we do the restructuring we have provision towards restructuring has been done so this quarter has that impact.

Renish H Bhuva: So this 2.5% include those provision also.

Dheeraj M: Yes.

Renish H Bhuva: That is it from my side. Thank you sir.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Thanks for the opportunity and thanks for the much more details that you have added this quarter. Sir first question just to understand slide 12, so what you have said is the number let us say for the entire bank 6.53% this is SMA 1 plus 2 put together and SMA 2 which is 1.5% is that the right understanding.

Dheeraj M: Yes.

Jai Mundhra: And when you say X bucket 85 so this means SMA 0 plus 1 plus 2 put together is 15% for the entire bucket.

Dheeraj M: Yes, and NPA. So X bucket is non-delinquent delinquent includes 1 to 90 plus NPA.

Jai Mundhra: So all SMA plus NPA is 15%.

Dheeraj M: Yes.

Jai Mundhra: So that was the first clarification second thing is on the entire merger process so the fulfilling MPS is precedent to merger right I mean there is no way you can avoid this because anyway if you want to see the three years' timeline if SEBI has exempted the promoter lock and then anyway this would have been achieved but just to understand this great this is a precedent to the reverse merger right.

P. N. Vasudevan: Yes that is right so the three year 20% lock-in in that we have got waiver from SEBI the MPS which is the bank has to have 25% of its share sell by the public that where the MPS that needs to be achieved and that is precedent to the merger approval from SEBI so that is where the QIP process is underway to help achieve the 25% post which we will approach SEBI for the formal approval for the merger scheme.

Jai Mundhra: And sir in the opening comments you mentioned about the third quarter FY2022 timeline this is the timeline for the entire process to go through right reverse merger including RBI approval SEBI approval and maybe NCLT approval.

P. N. Vasudevan: That is right it includes NCLT approval shareholders approval ROC approval everything and finally the merger should get completed totally.

Jai Mundhra: Great sir and just two data keeping questions if you have the, so you have given the restructured number outstanding and if you can also give the provisions on this Rs. 1,800 Crores outstanding pool I think you have mentioned 1.9 million which is additional but what would be the outstanding number and second is ECLGS does it still remains zero

Dheeraj M: ECLGS remains zero. The total provisions held on restructured asset, it is Rs. 243 Crores. If you look at our last slide, slide #34 we have put the P&L impact the total provision we hold is Rs. 243 Crores.

Jai Mundhra: And sir the last thing if I may ask the upgradation that we have seen that looks reasonably good, I believe is part of this is because economies improving people are coming out of

COVID crisis at individual level but does this also include the upgrade from NPA because of restructuring and what would be that amount I mean would that amount be significant.

Rohit Phadke: Those figures I would not have readily. We will give it later.

Jai Mundhra: Sure than you so much sir and all the best sir.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Congratulations on a good quarter. Sir couple of questions one is to understand the we have done a great job on the liability especially on the SA and TD I just want to understand the CA bit where CA balances or the CA deposit base has remain quite static around that Rs. 400-500 Crores marks so is there any strategy to improve this what are we thinking about it what are we doing to improve this number that is my first question and second question is on the neo account that we are opening around 7 lakh odd for quarter what is the commensurate cost with it because if you see the operating expenses on the other operating expenses that has not been growing in that very, very strong phase so from that perspective wanted to understand how is the economics of this opening these accounts and why do these guys have balances like are they bring where do they sit most of them. Thanks.

Murali Vaidyanathan: First let us take your CA question what is our CA strategy. See CA as we all know till yesterday evening not only us the entire industry went through the regulatory guidance's wherein we were force to close to have those accounts where ODCC is less than 10% so we have to go down to rise again so if you see quarter on quarter I think this the first quarter and last two quarters where CA has gone up by 26% so this absolute base of whatever you are seeing is after going down through dieting and then gaining it back through acquisition. So is that cycle that has come through our absolute acquisition has gone up to 2,000 to 3,000 accounts a month and we are actually adding Rs. 30 Crores of new value into the CA book and we are also focused on depending to strengthen CA now we have a merchant acquiring piece which is complementing it we will soon our LACR to supplement it and we will have a digital solution say three four months from now through merchant app so we have a very clear trajectory on what we need to go up to CA and at this point of time the acquisition IP and the quality of transaction management is very good so CA will continue to see a growth from here on and yesterday evening I think all of you might be aware that new regulation to open the CA and manage the CA has also come in which should help us along with all.

Now to the second part of your neo plus selfiee in neo we do not pay anything upfront only on the qualified accounts and based on some balances which is a different economic so on selfiee there is a marketing cost involved to source per account so let us first address the neo part of it neo part of it neo and Equitas has come together to promote savings as a theme either which ways I should wish you also tomorrow is a world saving day you should also try our neo Equitas or selfiee through that it will help you to make our life easier and get you savings inculcate that so there is no payout and all. So what we open is a half KYC account then we do a full KYC and close to 30% of the accounts have done full KYC and the average balances is Rs.10,000 to Rs.12,000 so if you complete the full KYC it picks up then we have a direct sourcing model called selfiee where we do the search engine optimization and social India marketing and we open the account which is 3 lakh within the 7 lakh an where full KYC accounts yield Rs. 40,000 the primary reason why it is 4x of neo is good profile customer based on our demography as we do some filtering and we do propensity based management and map it to the customer we met by RM it is Rs. 40,000 on monthly so we gain through full KYC only so more you keep it as a half KYC account the balances will dwindle it will be sub Rs. 1,000 like any other industry the gain is how fast you can convert it into a full KYC today we have 30% of the bank customer come through digital route who has moved into full KYC mode and now we have to facilitate that we have already gone full throttle live on video KYC and we have already recently gone live video KYC through our RM sitting at the branches also based on catchment which they will do full KYC so as we move on maybe six months from now this can be a bigger feeder channel to the physical channel so what will happen ideally is the customer or a consumer comes through digital full KYC done, given to the RM via mapped book and you keep meeting them increase the balance cross sell, this is going to be a new lifecycle and the work routine for the bankers by itself so it is a new evolution and a adventurous part we should keep allowing it in that direction.

So neo cost what we discussed at neo is not there on per account sourcing basis at selfiee there is a marketing cost involved because you need to play on certain open size and search engine optimization and stuff like that as of now revenue to cost dynamics as we all know digital is a area where your know earning is a lag effect of burning we are factoring that and we are taking that cushion what we can afford to we are quite happy with what we are doing we will rationalize it and we will focus more on the VKYC customers increasingly going forward so you might see a slight dip in numbers of selfiee which means we are focusing more on VKYC that is going to be increasingly our approach.

Bhavik Dave: And the total number of neo account could be around million right?

Murali Vaidyanathan: See, no, total accounts which number of accounts sourced is seven lakh one thousand out of that four lakh is neo, 3 lakh is selfiee.

Bhavik Dave: This is the stock acquired in the quarter.

Murali Vaidyanathan: Yes, correct.

Bhavik Dave: The total number of neo account will be how many till now.

Murali Vaidyanathan: 6 lakhs from the time we started.

Bhavik Dave: Remaining would be the selfie.

Murali Vaidyanathan: Correct total 9 lakhs is our digital account opened.

Bhavik Dave: And the cost is like you mentioned the marketing cost for selfiee and no per account cost for neo.

Murali Vaidyanathan: No per account only qualified account cost for neo so the propulsion there is to convert it to a full KYC.

Bhavik Dave: Understood alright sir thank you so much.

Moderator: Thank you. The next question is from the line of Vidhi Shah from Antique Stock Broking Limited. Please go ahead.

Vidhi Shah: Sir firstly on the freight rate you had mentioned in the opening remarks that freight rate for ecommerce has increased so does that mean that the small commercial vehicles and the intermediate commercial vehicles are better off as in MHCVs the freight rates have not gone up so much.

Rohit Phadke: The freight availability has gone up now your question is whether freight rates have also improved for small commercial vehicles so generally what happens is when any development happens first of all it happens in the formal economy so what has happened all the trunk routes Delhi Mumbai, Mumbai Chennai, for the large fleet operators where there the freight load had increased so that has absolutely happened that is very visible and that is one reason why manufacturers ramped up production and order was also pretty good now whether this entire thing is passed on to the small commercial vehicle as of now no but yes some has definitely been passed off and with increasing availability of load I am sure that more of this freight rates are I mean the festive season also being there with more freight available these freight rates would be passed on to the small commercial vehicle, but small commercial vehicles have seen a big good robust sales also their demand also so we can safely assume that from the earlier COVID non-remunerative operations now they are seeing operations as remunerative otherwise sales would not have increased.

Vidhi Shah: And UCV like within UCV this smaller vehicles and the higher vehicles what about the freight rates in those segments.

Rohit Phadke: Definitely there is some improvement but not such a great improvement that is why I am saying that the last quarter was a growth of the formal economy this quarter you see that effect trickle into the informal economy see a good barometer on the informal economy are improving its tractor sales and two wheeler sales but if you look at two wheeler sales, two wheeler sales are down year on year by 17% forget pre COVID this year-on-year itself is down by 17%, so clearly the informal economies it is lagging behind formal economy and that I feel will happen two three reasons one is formal economy is doing well obviously that effect passes on to the informal economy secondly these are festive season see H2 is generally in India H2 for all products is increasing, so the H2 is generally good for all products for increasing sales most of the consumption happens during Diwali so I am quite confident I am quite optimistic that the informal economy also would come now.

Vidhi Shah: And secondly sir what will be the prices trending for this second hand vehicle how the price movements have faired now.

Rohit Phadke: See price movement has still not gone up you mean the resale value of second half vehicles has still not gone up but I expect that in this quarter or in the next six months there will be some change in price moment see another significant thing is passenger vehicle transportation will go up because schools are opening up passenger vehicle transportation especially the buses who are down heavy I mean completely I mean there is absolutely no demand there so that demand will pick up now with schools opening up, with IT offices opening up so overall there would definitely be an improvement in the informal economy freight rates as well as remunerate to transportations as well as the price of used vehicle.

Vidhi Shah: Sir and the last question what will be the stock of repossessed assets compared to your normal pre-COVID level.

Rohit Phadke: It is higher by about Rs. 6 Crores normally we would keep a stock of about Rs. 10 to 11 Crores it is at about Rs. 17 Crores, Rs. 5 to Rs. 6 Crores is higher.

Vidhi Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Sharaj Singh from Laburnum Capital. Please go ahead.

Sharaj Singh: Sir my question is regarding the loan book it is restructured any specific segment, which is seeing some stress as and the microfinance and the vehicle particularly.

Dheeraj M: So the any segment which is seeing stress in the restructured book so if you look at the last year we saw the microfinance of vehicle is showing the highest stress during the year I think this quarter we will come to know, but generally from a contribution perspective I would say microfinance is the highest.

Sharaj Singh: No sir I mean to say among the restructured do we expect some major deficiency in those accounts in the coming quarters as of now.

Rohit Phadke: You are asking us about the behavior of the restructured pool is that right.

Sharaj Singh: Yes.

Rohit Phadke: Yes, so I do not have numbers but as we have given some numbers on the RSL 1 pool on the accounts in NPA that behavior we have clearly said and there is a reason for it see the RSL 1 customer what standard as of that March but suffered a massive stress during COVID 1. Now again immediately after will he coming back into business Covid wave 2 struck so obviously the RSL customer who would suffer some kind of a little bit of more stress but RSL 2 as I explained because the economic conditions were doing well, freight availability is there, businesses have opened up so I do not see that kind of impact in the restructured loans due to COVID 2, because in COVID 2 see these people were standard as of March and they have gone into stress only post March so it is a very short period of time which means they will be able to come back pretty fast.

Sharaj Singh: Sir the second question is given that we are focusing little more on the housing finance in that segment how should we look at the yields in the coming years suppose couple of years down the line.

Rohit Phadke: Yields in housing finance retail portfolio would go up because as of now we are only in some markets, are you talking about overall book.

Sharaj Singh: Yes.

Sridharan N: Only about the book know for this the yields in the housing finance book will definitely go up because as of now we are primarily we have started in Gujarat and we got in to

Maharashtra so now we will be getting into south I think yields will definitely go up in the affordable housing loan book.

Sharaj Singh: But the impact on the overall book yields.

Dheeraj M: Yes, so most of our products the yields continue to remain sticky the only change in yield is because of the change in composition as housing, new CV, used cars start to pickup you will see that impact on the yields in the medium-term like we have always been saying we do not see any dramatic change in the yields so they are broadly there I think give or take 100, 150 basis points is there.

Sharaj Singh: And from the ROEs for the same thing.

Dheeraj M: Yes so ROEs I think if you just look at our past December 2019 I think is a first thing we would want to reach because after that it is where it has all got marked by the COVID impact so I think it is fair enough to get our fundamentals first to reflect our pre-COVID which is December 2019 I think once you reach there we hopefully go back to where the business model is and that is we have been consistently saying that this is a two, two quarter ROA high teen ROE business but I think immediate is to come back to December 2019 numbers.

Sharaj Singh: 15% annualized.

Dheeraj M: Yes absolutely.

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

Nidhesh Jain: Sir how do we think about the operating profitability if you look at last four five quarters despite our tie ups with payment companies being there in our P&L our operating profitability has declined quite a bit we reached around 220 Crores in Q2 FY2021 but now it is 195 Crores so how do we think about this going forward and what is the reason for a decline in operating profitability despite these tie ups as well as loan book growth in last one year.

Dheeraj M: Nidhesh there are few things which we will have to take into consideration one is we are in a phase of higher NPAs so that has an impact on the net interest income because it gets removed from that so hopefully when we come back to normal levels of NPA you will see some bit of that profitability coming in because of income recognition second I think is more related to an Opex point of view we have I think by and large we have been stable on Opex so far now we have got into some bit of investments like Sridhar had pointed out on technology and on branding but I think that is more a one, two quarter phenomena so we should see profitability start improving and as you see from our income even now some bit of our income is linked strongly with disbursement traction so microfinance and small business loans so as our disbursement picks up you will start to see the processing fee also pickup which was also absent I would say for the last six months so some of those factors need to revert to normal is one NPA reverting to normal so that income getting to recognize processing fee due to disbursements coming back to normal and I think we are there right now and last from an Opex I think it is going to sticky because we are making some investment but I think the income should outplay so operating jaw should continue to improve hopefully from the coming quarters that is because yields are not if you look at NIMs continue to remain at 8% odd so that is we are not seeing NIM pressure so the rest of things I think a purely momentum.

Nidhesh Jain: And this investment that we are doing can you share the quantum in our OPEX this quarter and how that will trend over coming quarters or coming years.

Dheeraj M: Yes, so we have the Rs. 35 Crores in the quarterly Opex which has moved up because of technology investments and branding investments so that is the quantum.

Nidhesh Jain: And that will remain now stable.

Dheeraj M: Not necessary so there is some bit of it would not be continuously 35 Crores for the coming quarters that is difficult to predict, but it may not move up in the same pace.

Nidhesh Jain: And the secondly on the restructuring the total pool outstanding as of September is Rs. 1,819 Crores out of that 77 Crores has already slipped into NPAs so standard restructured pool is Rs. 1,740 odd Crores and on that standard pool we are having a provision of 243 Crores is that right understanding.

Sridharan N: Yes your understanding is right actually with regard to the restructured pool as well as the provision.

Nidhesh Jain: Thank you that is it from my side.

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

Sameer Bhise: Just looking at the mass affluent customer slide obviously some part of these relationships will be the accounts will be selfiee and neo both right.

Murali Vaidyanathan: Mass affluent is wings and elite and this is coming through the physical channel.

Sameer Bhise: The product or the relationship name or a product suite name from that also this would be overlapping as the account would be selfiee and neo.

Murali Vaidyanathan: No selfiee and neo is a half KYC account wings is a higher end of the product and elite is the beginning of a program so elite is generally sourced by the physical channel that is branches RM and the BBO so in the selfiee part what we do is we do a data cut and we give them greater than Rs. 10 lakhs through the backend analysis and 5% of the sourcing of selfiee is now feeding for wings that is a highest end of the product and 1% of that is feeding into the elites so as we discussed earlier digital complementing physical is actually becoming a real through the selfiee platform.

Sameer Bhise: So the overlap is very little.

Murali Vaidyanathan: Very little.

Sameer Bhise: And when we say that we make some bit of fee on the cross sell so obviously that would largely be coming from the premium and wing side.

Murali Vaidyanathan: Correct. It is on the MAS affluent HNI and ultra HNI this is the three segments where we make protection, investments and our three in one accounts.

Sameer Bhise: So any sense you can share on how the cross sell has moved on in this part of the customer piece or number of customers on the side because the share is roughly Rs. 7,000 – 8,000 Crores because of wings and elite.

Murali Vaidyanathan: Correct. So our sourcing and deepening predominantly if you see as I said there are three stages of relationship management one is virtual relationship managers who handle between a Rs. 1,000 and Rs. 1 lakh as RV, second stage is Rs. 1 lakh to Rs. 5 lakh we give it to the role called personal bankers and Rs. 5 lakh and above goes to the RM this put together is our 65% of the book if you go back and see what we have as a product holding is a very indicative measurement through which we understand the stickiness and the penetration into the consumer segment so in the mapped book we have close to 35% of the consumer who have consumed two or more products, the two or more products means what either a CASA either a TD either a investment or a protection it is core banking product along with protection and investment anything other than for example debit cards and all we do not count at all. So that is how this we want to take it up to 60% over a period of maybe it will take these are increasingly when your numerator adding at a significant pace but our focus is towards this direction so mapped book progress is a key indicator in terms of product holding at a consumer level and it is measured with the RV growth through pool of liability so mapped book RV today stands at Rs. 6 to 7 lakh which means average consumer had CASA plus TD put together at Rs. 7 lakhs in mapped book so this increase in trajectory of relationship value product holding and penetration of investment and protection are the key drivers through which managed and mapped book is managed.

Sameer Bhise: I will probably need some more details so I will connect with you and Dheeraj offline. One quick detail when we say that 85% of the book is in X Bucket would some part of restructuring be bigger because restructured customers would be paying on time the revised out go or monthly out go so would this all in the X bucket.

Dheeraj M: Yes these are under X.

Sameer Bhise: What quantum would that be.

Dheeraj M: That entire restructured book, Rs. 1,800 Crores minus Rs. 77 Crores.

Sameer Bhise: So all of it will fall under X bucket.

Dheeraj M: Yes. Most of it some would have gone because our billing or our collection efficiencies so all X bucket we have told you it is not 100% that means some tend to flow into the next bucket but by and large you can assume that most of it is in X.

Sameer Bhise: Great. Thank you and all the best.

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

Abhijeet Sakhare: The first question is on the slide on 30 to 90 DPD movement so there is almost a Rs. 1,000 Crores reduction so how do we differentiate between actual repayments versus restructuring that has happened this quarter.

Dheeraj M: So you are asking, what led to the reduction.

Abhijeet Sakhare: Yes, the 12% falling to 6.5% is that actual repayment or there is some support because of the restructuring this quarter.

Rohit Phadke: Yes so there will be some support from restructuring but basically it is 85%, 90% would be from collections people actually going to the field and collection from customers.

Abhijeet Sakhare: So the other way to understand is restructuring that has happened those were not part of the 30 to 90 pool right.

Rohit Phadke: Yes, so for RSL 2 obviously the billing is yet to start.

Dheeraj M: No let me rephrase the question is that you are asking the fall in the 31 to 90 from 12% to 6% is it because some of the accounts where restructured and become X so the answer is not it will not be significant because most of the restructuring you would have done would generally not fall in this too much of this bucket it would be spread across I would put it, it is not lumpy for estimate that strong reduction but yes it has some part of it is.

Rohit Phadke: See some of it will definitely be there but a significant portion is collections which we will give you the number.

Dheeraj M: Yes, so we do not have it right now RSL book we will upload this we will get it and upload it on the website.

Abhijeet Sakhare: The second one was like how do we look at the margin trajectory over the next 12 months and if you could quantify the amount of interest reversals in the first half this year.

Dheeraj M: For this first half right.

Abhijeet Sakhare: Yes.

Dheeraj M: Yes while we pull out what has been the reversal due to NPA, so the margins I think remained at generally at about 8%, 8.5% and generally you see it fluctuate below that is because of any of this one offs so we should remain at the same level at least for the medium term. So we do not see the portfolio composition changing dramatically either MFI or small business loans which are the higher yielding portfolios we do not see that changing much and to answer the next question Rs. 34 Crores is the income reversal in the first half due to NPA.

Abhijeet Sakhare: And sorry one last data point is that within the SBL book if you can quantify the NPLs in the MSME and the housing book separately.

Dheeraj M: No we have not started that there if you ask me the comparison would be small business loans and within it we have housing so we have not started to give those numbers yet but safe to assume that housing of our portfolio reflects most of the affordable housing plays in the market so it is very, very comparable but I think once that book reaches some decent size we will then start reporting it separately, you will have to bare with us till then.

Abhijeet Sakhare: Got it thanks a lot.

Moderator: Thank you. Ladies and gentlemen we will take the last question from the line of Nihar Shah from New Mark Capital. Please go ahead.

Nihar Shah: Just again sort of discussing the cost to income part of it typically you have guided towards 400, 500 basis points reduction on a year-on-year basis would it be somewhere in the 50%, 55% levels you are at about 58% to 60% last year and right now the first half is looking at like 67%, 68% just given the commentary that you have given on the cost on investments in technology and some of the other areas branding is there a change to have you think about your cost to income progression over the next few years and obviously this year does not seem to be somewhere where you can probably get to a reduction but if you have to think about it over a longer-term how do you think about it now.

P. N. Vasudevan: Yes, so we were at around that 57%, 58% last year pre-COVID and ideally it should have come down to that 55% which we had kind of expected. But then of course the COVID has hit us and that changed the entire picture but going forward we should still be looking to reach that earlier level of 55% that we have been talking of. We should be able to reach that shortly I am not going to really give you a timeline on when we will reach but definitely that is the trajectory that we would be trending to and see the point is that Equitas the model of Equitas is largely from an expense side it is largely a fixed expenses model and so when the business goes down and the growth in assets is really impacted strongly the income was down and then on top of that you have an increase in NPA like what we have seen in the last 12 months or so that again impacts the income and so we have seen the cost to income ratio going up but as the market stabilizes and the lockdowns have hopefully do not come back again and as I mentioned in my opening comments we should be looking to reach our 25% plus advances growth shortly so as our advances growth comes back as our NPA stabilizes and the reversal is not very significant income reversal I mean it is not very significant then we should start seeing that cost to income going down again it is a question of time and the direction is clearly going to be in that direction but it is only a question of time as we reach that I am not really going to tell you exactly by when we will reach that 55% but it is a question of the next few quarters.

Nihar Shah: Sure thank you.

Moderator: Thank you. Ladies and gentlemen ladies and gentlemen that was the last question for today I would now like to hand the conference over to Mr. P.N. Vasudevan for closing comments. Thank you and over to you.

P.N. Vasudevan: Thank you all of you thanks for dialing in and patiently listening to us an thank you for asking all your clarification we do hope to have your continued support going forward and let us all pray let us all jointly together pray that the country continues to remain COVID free as it is for the last four months and all of us get back to our regular life very fast thank you so much and wish you all the very best. Bye! Bye!

Moderator: Thank you. Ladies and gentlemen, on behalf of Equitas Small Finance Bank Limited, we conclude today's conference. Thank you for joining us and you may now disconnect your lines.