# “Equitas Small Finance Bank Limited Q4FY21 Earnings Conference Call”

## April 30, 2021

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**Moderator**: Ladies and gentlemen, good afternoon and welcome to the Earnings Call of Equitas Small Finance Bank Limited Financial performance for Q4 and full year of FY2021. We have with us today, Mr. P.N. Vasudevan -- M.D and CEO, Mr. Sridharan N -- CFO, Mr. Murali Vaidyanathan -- President and Country Head, Branch Banking, Liabilities, Product, and Wealth, Mr. Rohit Phadke -- President and Head Retail Assets, Mr. Ram Subramanian -- Head Corporate and MSE Banking, Mr. Jagadesh. J -- Head Inclusive Banking, Mr. Natrajan. N -- EVP Treasury, Mr. Dheeraj M. -- Head Strategy and IR, Mr. Rahul. R -- AVP 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 phone. 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. Good afternoon to all of and welcome to this Conference Call of Equitas Small Finance Bank. I hope all of you and your families are safe as the second wave is creating havoc across the nation. At the Bank the second wave is also causing sever amount of damage to our staff. We have about 230 employees who have recovered but, we still have nearly 469 employees who continue to battle the virus of which 29 are currently hospitalized and very sad to state that we have seen four of our colleagues succumb into the virus.

Middle of last quarter our branches are showing signs of returning to normalcy but with the rise in infections we are struggling to keep some of the branches operational now. We are just praying and hoping that it will get quickly behind us. To tide over the pandemic, we are working very closely with the health authorities to ensure that all our staff and family members are vaccinated in addition to providing necessary financial and health care benefits. The Bank has also rolled out measures to support our front line workers during the crisis.

Now, we will move on the business operations, we had a reasonably good quarter as collections and disbursements continue to pick up across the product segments in particular our vehicle finance portfolio which has done better than our initial assessment. On the liabilities front the team has done an excellent job across all indicators be it retail growth, client deepening fee income, digital traction, branch productivity. We are seeing a very good traction. We have tried to provide this perspective on slide number 4 in the presentation.

Moving on to our asset quality it has held well as of now not taking into account the potential impact of the second wave. Credit cost of 2.26% and NNPA of 1.52% have been in line with what we had been guided during the year even though we had extended the moratorium benefits to as much as 98% of our clients by numbers for the first moratorium period. Also, we have seen a month-on-month uptick in collection with X-bucket or repayment from our non-billing customer returning to the pre-COVID levels. But however, with the fresh lock downs and restrictions being announced across the various parts of the country and the ambiguity of what impact it will have on our customer segment guidance for the current year looks quite difficult to make at this point in time.

On the provisions front we had increased the prudential provisioning standards during the last year in fact in December significantly more than the regulatory required levels. Accordingly, we have a total prudential provisioning of Rs. 307 Crores which is required as per regulatory provisions, but we carry an overall provision of Rs. 460 Crores which leaves us with an extra of Rs. 153 Crores above the regulatory requirement. Including the floating provision, we have a provision coverage ratio of 58.59% as of March 31st March 2021. Based on how the first quarter pans out we look at further increase in provisions as may be felt prudent from our end. We will continue to be up front in recognizing any possible stress and taking steps in advance, and I do hope to see that the things settling down as quickly as possible.

In terms of the quarterly performance as indicated in the last call, in Q4 we continued our focus on collections, in March-2021 the expected collection across all products improved further. This means that we are not seeing any additional stress building up on a monthly basis.

As of March our advance grew 17% year-on-year and about 81% is secured loans. Our flagship product small business loan continues to show reasonable growth. Used car advance crossed Rs. 120 Crores which we launched in the end of last financial year. MSE finance which we started post conversion to a Bank continues to do well and now contribute 7% of our overall book.

In terms of our liability franchise, we acquired 4.76 lakh liability accounts in FY2021 as compared to 1.59 lakhs in FY2020 which is almost like three times or a 300% jump. This was largely led by our multiple digital initiatives, improved productivity and a very strong leadership. Deposit grew 58% year-on-year, savings account grew 174% and 45% quarter-on-quarter. CASA at Rs. 5,614 Crores was at 34% as the CASA ratio compared to 20% in the beginning of the year.

Our focus on digital banking continues we have set up a separate business unit and focus will be on partnering with neo banks, collaboration with Fintech programs building digital assets, digital payments, digital transactions banking and apart from this we will also focus on internal digitization project for process efficiency and enhancement.

Thank you so much for hearing me out patiently we will be happy to take your questions. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amit Nanavati from Nomura Securities. Please go ahead.

**Amit Nanavati:** Just wanted to check on the micro-finance part at least I see that you have written off your MFI book and yet the gross NPA reduction is more or less around 180-basis point odd and around 6% is sitting still in more than par 30. So, just wanted to get your initial assessment of what could be the eventual write off largely from wave 1 and then again wave 2 how large the problem can be at least whatever initial assessment you can share?

**Rohit Phadke:** Usually what happens in the microfinance book is anything above 30+ is supposed to be at risk. But fortunately, in the last quarter we have seen a new trend emerging, for the first time in the 1 to 30 bucket our resolution was about 80%, in the 30 to 60 bucket our resolution was about 60% and in 60 to 90 bucket our resolution was about 50% so, this is a new trend that we are emerging. So, we feel that as we go ahead, we will be able to recover a lot of the book which is lying in the par 30 bucked. This is really a new trend we have never seen this before but the last quarter we have seen this trend and I think it has been very surprising and really comfortable about it.

**Amit Nanavati:** Understood. But, can you share what is the flow through numbers from par-30 to 60 to 60 to 90 and beyond 90, because you have written off but still we have not seen meaningful reduction in NPA there right. So, you have 300 odd basis point attrition as well?

**Rohit Phadke:** Yes, if my collection was itself 65% my flow through was 30% is it not. In the first bucket if my collection was 80% then my flow though was only 20%.

**Amit Nanavati:** Understood. And any initial assessment that you can share in terms of a) both in terms of your inability to go on the street and collect because of some bit of impairment in your collection infrastructure because of COVID and also any initial assessment of what behavior from a customer perspective is?

**Rohit Phadke:** To be very honest it is too early to give guidance on what will happen because of the COVID restrictions. One, because COVID restrictions this year are not as uniform as they were last year, last year everything was locked down it was very clear that nothing would move. This time the restrictions are very fluid and different in different regions, so it is very early because half of April we did not have restrictions and half of April we have clamped on restrictions at most of the places. So, to be very honest very early to give you any guidance on what will happen in the future.

**Amit Nanavati:** Understood. That's it from my side. Thank you.

**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. First question is on CASA now we have done a phenomenal job on CASA in which you too have got the strategy, product and probably acceptance also if you can share the escalation levels for CASA over the 12 months or 18 months. That is my question number one

**Murali Vaidyanathan:** The trajectory is good NTB which is coming in the form of digital and physical mode seems to be very good. Our segmented focus has yielded it but giving a 12 month and 18-month period should not be a treated as a forward looking guidance. So, what I can say is are we doing right things, yes in terms of getting number of customers base we have started clocking 40,000 to 50,000 accounts a month it is sustainable? Yes. Do we want to scale up of course, yes? Similarly, on the existing book are we getting the relationship management and virtual management deepening right, yes? So, you continue to keep this retail focus on and CASA drive on. From 34% we need to stabilize here before we propel to the next level.

**Jai Mundhra:** Sure and there is no all of this improvement in Q-o-Q basis also right from 25% to 34% is more or less structural as no one off part of thing?

**Murali Vaidyanathan:** Correct, as we have mentioned here what we have done consciously is we have reduced the bulk deposit, if you see the book in Q3 to Q4 we have shed our cholesterol out by taking Rs. 1,000 to 1,100 Crores out and we got the right message come in the form of CASA and RTD. So, it is a conscious decision of growing retail by curtailing bulk TD so, it is a broad based and structurally it has helped us to bring down the costing also and it enhances the transaction.

**Jai Mundhra:** The next question is around Asset quality, now we have shared a good detail on asset quality in terms of X-bucket collection and the overall collection. So, if I understand it correctly then 99% of the customer by value who are zero DPD at the beginning of the period they continue to remain zero DPD right, that is what the X-bucket collection efficiency is. So, a) is there a grace period that you offer let us say all these guys which may have paid in the next 7, 10, 15, whatever grace period is that included here, and secondly now the rest, is the bucket itself which I believe is 10% -11% by value or zero DPD. So, is that a worrying time that 10% - 11% of the book is chronic stress I mean the customer which was standard they remain standard but, the customer which were delaying payments they still continue to delay payment of course the situation is not that great, I mean the macro situation is not that grace but is that understanding right?

**P. N. Vasudevan:** The X-bucket as you rightly said people were not having an overdue at the beginning of the month and end up paying their EMI till the month. So, that represents X-bucket, and you talked some grace period, so there is nothing like a grace period in a term loan there is a certain EMI date fixed and they need to pay that but X-bucket is calculated based on the month end collection. So, if somebody was supposed to pay on let us say 10th of the month and he ends up paying that EMI on say 20th of month he's still counted as a person who has paid during that month so, that is how it is calculated.

As far as the other part that you are asking for in terms of 10%-11% who are chronic cases and all that if you look at the same page-21 we have given you the billing efficiency of March-2021, okay billing efficiency we have explained it in the bottom by saying that it represents EMI's of March alone collected as a percentage of March month total EMI and March month total EMI includes EMI's of accounts which are in NPA also and not just standard assets. So, that is at least our definition of billing efficiency so, what it means is that for the month of March the denominator consists of the billing of all live accounts including NPA accounts numerator consist of only those who have paid March EMI not anything pertaining to February or January or anything like that only March. So, that is you can see it is 91.12% at the bank level that means is 9% of the customers have not paid their EMI's of March and out of that 9%, 3.6% of the customers are in NPA right, so if you remove 3.6% out of 9% that gives you 5.4% of customers who have not paid their March EMI but they are not in NPA they may be in some lower bucket overdue position so, that is what it means. I hope that is clear or is there any other further clarification?

**Jai Mundhra:** No, most of this is clear then that Sir, do you suspect that this 5%-6% people who are delaying payment or they are in 30 to 90 bucket, are they the same people which were there in the December because it looks like this bucket is more or less same bucket is that the understanding right?

**P. N. Vasudevan:** In December-2020 we have given you the billing efficiency was 88.73% that have moved to 91.12% so, basically it has moved up by about 2.5% - 3%. So, that means that more people have started paying in the OD bucket also. But yes you are right, we have 5.4% of customers who are in some OD bucket and who have not paid so maybe he is in the first bucket by not paying he has moved into the second bucket or something like that. But he is not NPA, which means that he is probably paid better in the earlier months, so that is why he is basically not an NPA but he is in the OD bucket and these numbers are very comfortable, I mean these are our pre-COVID levels, these numbers represent our pre-COVID levels so it is very much business as usual at this level.

**Jai Mundhra:** Right Sir and the last the data keeping question that if you have the RWA number and tier-1 absolute number? Thank you.

**Sridharan N:** Tier-1 capital at Rs. 3,150.78 Crores and Tier-2 Rs. 120.60 Crores so, the total capital is Rs. 3,271.38 Crores and the percentage wise Tier-1 is 23.23% and Tier-2 is 0.95% totaling to 24.18%.

**Jai Mundhra:** Sure Sir. Thank you. All the best.

**Moderator:** Thank you. The next question is from the line of S. Parmeshwaran from Jefferies. Please go ahead.

**S. Parmeshwaran:** Good afternoon Sir, I just wanted to your perspective that in the context of the impact in the business in terms of borrowers probably having some impact on the cash flows etc., or may be for added not evenly spread out and your experience with the previous forbearances like, moratoriums, restructuring etc., if we need to offer some sort of a support to your borrowers what would you prefer, is the moratorium a better approach, is restructuring a better approach just a thought Sir? Thank you.

**P. N. Vasudevan:** So, the effect on cash flow of customers because of the wave-2 as Rohit mentioned earlier, it is very early and we are not really in a position to give a commentary on that at this point in time. But clearly it looks like there will be an impact. I think that is fairly clear so, the first quarter I think it is going to have an impact, second quarter how strong it will come back we have to wait and see and from a regulatory support for such kind of customers what kind of support we think that may be most useful that is something at the SFB industry level we have been discussing that in our association and we have also been kind of giving our feedback continuously to RBI in terms of our ground level feedback. So, what looks like if we get an option to both give a moratorium or a reschedule customer wise I think that may be the best solution because unlike the last year which was a uniform impact on everybody because the whole country just locked down. So, it is was an uniform impact on everyone, today it is not like that it is varying impact on different people in different areas. So, we may probably if RBI probably comes out with an option to either re-schedule or give a moratorium on a very customized basis for example I can give a three months' moratorium to somebody and I can give six months' moratorium to somebody and I may not have to give any moratorium to somebody else because it is strictly not impact us. So, that way a customized approach may better this year simply because the impact of all this wave 2 is not uniform it is different. So, let us see what the regulators come up with but something like that may be probably in our view very useful.

**S. Parmeshwaran:** Thank you sir. Thank you.

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

**Renish H Bhuva:** Sir and congratulations on a great set of numbers. So, first question is on our SA cost, it has been trending up for towards the 7% mark when we revised the rate and is now at around 6.5. So, is it fair to assume that SA cost have picked out at that current level it is almost the convert will be a peak rate or do you see there could be a further increase in the SA cost may be in Q1, Q2 as well?

**Murali Vaidyanathan:** First you need to understand, last year we had up to one lakh at 3.5% and greater than one lakh at 7%, this was the product laddering. Now, what it has got everyone up to one lakh will get 3.5% incremental above one lakh people will get for the incremental money 7% this is how product laddering works. So, now what we need to see is that the most important part two things, one is our number of intake of customer have gone up and seeing that to control the bulk money now we have divided this year into up to retail that is 2 Crore it is 7% and greater than 2 Crore already it has moved down to 6%, so this will tap discouraging bulk money coming in to the SA so that factorization has already happened and number two, the number of people who are aspiring to build 7% has gone up significantly now that is given as the biggest edge at this point of time. So, if you look back to earlier time at that bucket it was 8.23% which has come down to 7.42%, when SA was at normal pace everybody was at 6 to 7 to 8% and now it has come down from 7.77% of Q42020 to 7.20% so, it will continue to remain at 6.5% to 6.3% buckets because bulk is discouraged already in our factorization. So, greater than 2 Crores we have already moved to 6% so, our focus is to get retail up, our focus is to get the middle class plus that is HNI and ultra HNI that is why a high variant trajectory is up. So, it will continue to dwindle above 2 Crores in terms of costing up to 2 Crores it will remain the same if you factor it you will gain over a period of 20 BPS on the reduced side.

**Renish H Bhuva:** Got it. so, may be the like say down trend trajectory will take some time but in terms of the blended stock if we try to assume that it will stick at current level and there will be no further increase from the current level?

**Murali Vaidyanathan:** Correct.

**Renish H Bhuva:** Okay, got it Sir. Now, my next question is to Vasu, may be Sir if you can through some light on the April collection we have seen the March collection are trending up well and holding up well. But if you can through some light the initial feedback from on the ground level what is happening on the collection that will be helpful Sir?

**Rohit Phadke:** As I said it is extremely difficult to give you guidance on what exactly will happen in the future. On April the first 15 days were normal then next 15 days all restrictions have happened. But usually what happens is your collections after 31st March pick up only slightly later. So, April might not be a great impact but there will be an impact and as far as going forward what will happen I really cannot say because it will depend on post May-2nd what happens I mean whether there will be a full lock down, whether there will be partial lock down so it is very difficult this time because as Vasu Sir explained you know it is not uniform across it is very different in different area. So, at this point in time to be very honest, I cannot really tell you what will be the impact but there will definitely be some impact.

**Renish H Bhuva:** Fair enough Sir. But just last the clarification, on the provisioning side in one of the slide we have said that we are having this Rs.150 Crores of around like some were as a management outlay provision so, that has included while calculating NPA provision or not, it is over and above NPA provision?

**Sridharan N:** I would like to explain the total thing, normally the bank follows IRAC norms and the IRAC norm allows only a provision against the specific NPA loan and also we are allowed to create otherwise floating provision. Any additional provision which you would like to create that has to be made account wise and it has to be consistently followed. In fact, we made extra provision that is last year starting onwards based on the Covid package announce by the Reserve Bank of India and around Rs. 100 Crs we made as the provision. So, far in March-2020 we made an Rs.100 Crores and thereafter we made Rs.71 Crores in Q1 and Q2. So far the RBI has not come out with any special provision package for the second wave and we will make provision in Q1 in case RBI announces any such package or based on how the collection happens in Q1 we will make our provisions accordingly. If you go back actually in the introductory speech, in Q3 that is in December-2020 the bank had accelerated the provision at various bucket levels and that is we see in business good enough to take care of the provision. In fact this PCR from 45% it has gone to 59% from last year to this year.

**Renish H Bhuva:** Correct, sorry for repeating same thing again. So, what I am saying is at our net NPA number of 1.52% is that Rs. 153 Crores is deducted from gross NPA while arriving at 1.52% or this is sitting aside as a floating provision as on date?

**Sridharan N:** No, it is not a floating provision it is deducted actually.

**Renish H Bhuva:** Okay.

**Sridharan N:** The extra provisions i.e. the management overlay provision has been deducted for this.

**Renish H Bhuva:** Okay, so it is there in the PCR?

**Sridharan N:** Yes, it is already included in the PCR. Even the Rs. 19 Crores floating provision is included in the PCR.

**Renish H Bhuva:** Got it. I think that is helpful.

**P. N. Vasudevan:** The only way we can make a provision which will not be included in PCR will be when whenever RBI may consider special scheme like last year they came with the special COVID provision scheme under which banks are permitted to hold up general provisions not against any specific asset but at the entire pool level they allowed us to make a provision and so most of us made that COVID provision which was not part of PCR. But that was only for one-time permission given by RBI so, no Bank under IRAC norms can create a provision which is not part of PCR or account wise unless there is a specific scheme given by RBI.

**Renish H Bhuva:** Got it. Yes, thank you for the explanation. Thank you so much. That is it from my side.

**Moderator:** The next question is from the line of Anand Ladda from HDFC Mutual Fund. Please go ahead.

**Anand Ladda:** Sir just wanted to have your view on net interest margin side. This quarter it has declined as we have some one-off, barring one-off how do you see margins from here?

**Dheeraj M:** If you remove all the one off ideally trend is in line with the portfolio composition and in that as you had mentioned MFI actually has a fairly high sensitivity to our NIMs, so as our MFI contribution has been coming down and now it is sub 20% you are seeing that impact on the yield on advances it is roughly about 25 basis points and so far we have been able to offset it with the corresponding reduction in cost of funds. So, bearing that sensitivity the NIM is fairly stable but as you know last year was not a year where MFI could really go back to normal levels of disbursement and which is why even from an advances growth it looked very weak but barring whatever outlook we have for the second wave if business has returned back to normal our MFI disbursements would have picked up to a much higher level than what it was last year and that would have kept the NIM's a little more sticky. So, I hope I have been able to tell you the sensitivity around NIM's and since we are not giving any guidance or taking that into consideration I would not be able to tell you where the NIM's may trend but there is a sensitivity which is mostly linked with the MFI contributions. On the rest of the products the portfolio yield is fairly stable so, at a product wise our yield has continued to remain stable just as the competition has yielded to these reductions in NIM.

**Anand Ladda:** Okay, and lastly if I look at on operating cost of income ratio has been trending down. Do we still see that it has declined or rather cost growth will be lower than loan growth?

**Dheeraj M:** We have always had given certain mile stones of cost to income where we want to take it as a Bank and we had said that in the mid 50's to early 50's is where we had kept our mile stone but at that point in time had not started this first wave, second wave and this pandemic, so if everything returns back to normal from a business model we should start seeing cost to income trend closer to the early 50's but other than that this is actually the very wrong time to give guidance but that is how the business model is built.

**Anand Ladda:** Okay. Thank you. That is it from my side.

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

**Nidhesh Jain:** Thanks for the opportunity Sir. Sir, firstly on the micro finance if I look at in this quarter we have written off almost 5% of the book and despite that our billing collection efficiency is 91%, our par numbers have not improved if I just add just 5% in each par bucket the par numbers would have been worse of versus December-2020 data. While we have been consistently getting feedback on the grounds that Q4 has been good and your commentary has been there that Q4 has been a good quarter but actually the underlying asset quality in microfinance is deteriorated quite a bit in this quarter, is that a right a way to look at?

**Dheeraj M:** So the write off happened in the end of the year so the billing efficiency will not reflect that. If we had done the write off in the beginning of the quarter then obviously the billing and collection efficiency would reflect that and it would have been higher so, that is one. The other one I will give it to Rohit in terms how collections happen.

**Nidhesh Jain:** But in par data the write offs are reflected, right?

**Dheeraj M:** Yes, correct but in billing efficiency no.

**Nidhesh Jain:** Okay, sure.

**Rohit Phadke:** To add to that if you look at that same page, if you look at the X-bucket collection efficiency, the X-bucket collection efficiency in micro finance has been at 98.7% so, that's coming back to normal that it is good also when you look at micro finance there is a slight difference between what happened earlier, what happened now. See earlier 30+ was at risk because those customers were intentionally or they had genuine problems they just disappeared they were delinquent customers. Now in the last one year what has happened is it is circumstances which have prevented customers from paying up that is a big difference between what used to happen earlier and what happened last year and that is why I said that for the first time we are seeing good resolution in 1 to 30, 30 to 60, 60 to 90 buckets and that gives us a lot of confidence that we should be able to do some decent collections here unlike the trend which was exhibited in earlier portfolios.

**Nidhesh Jain:** Sure, despite all those resolutions actually our par data has not improved versus December - 2020 that is the only probably the feedback that I have because we are talking about resolution but if you look at par-30 and if I add 5% there it has become 11.5% versus 9.5% as on December-2020?

**Rohit Phadke:** So, if you look at the billing efficiency in December-2020 and March-2020 it has slightly improved from 91.29% to 91.90%.

**Nidhesh Jain:** Sure, and secondly in the opex line item there is a separate line item of around Rs.30 Crores that you have given can you tell us what is that opex you have segregated separately in the opex line item. What is the nature of that of any expenses?

**Murali Vaidyanathan:** We have two lines of business here one is prepaid card another is micro ATM okay, what happens here is you tie up with say for example let me talk about first micro ATM we have ten partners and out of that two of them contribute to 70% of the business I assume that partners name is X, you enter into an agreement with them where you land up in doing a revenue sharing basis. So, out of revenue sharing what happens in some cases it will be 80-20, some it will be 85-15, some it will be 90-10, so this switching cost is two things, one is all the if offers, transactions what happens through these points and their transaction cost which is agreed both are factored here. So, this is what is switching cost which we are talking about prepaid card business and micro-ATM business. In prepaid card business we did say something close to Rs.760 Crores of throughput last year so, in that revenue basis approximately 86% of the revenue goes to that Fintech partner and 14% come to us. This we have been doing it for last two years and last year we scaled a big time on prepaid business through focused segment. Similarly, on micro-ATM's we expanded the spread through two of our partners so now we are the second largest in fact micro-ATM in terms of SFB space. So here we land up paying switching fee where people will come and swipe on those machines that interchange revenue what you make in that spread is again 85-15, so these are the two costs. So, this has a lead lag effect of one month or two months based on this month transaction after 40 days it comes for billing and so it is booked as revenue on one side and post 45 days or 60 days it is booked back as expense at the ratio of 85-15.

**Nidhesh Jain:** Sure, because just to clarify that you may be getting revenue of Rs.100, Rs.85 is booked as a cost in P&L?

**Murali Vaidyanathan:** Correct, More the transaction so, does not get misguided by seeing the transaction cost going up. If you see transaction cost is going up the bigger positivity is that the number of transactions have gone up. These are paisa based I hope you are getting logic.

**Nidhesh Jain:** Sure, and Sir in this business there is no capital required right?

**Murali Vaidyanathan:** Nothing, no capital required we are only facilitating it is a simple as simple as back end identification. Yes, Rohit wants to answer.

**Rohit Phadke:** So, your observation on the par data being slightly worse is correct, there is some stress in the micro finance I am not saying at all that the stress has gone away, what I am trying to tell you is that the last quarter we saw fabulous improvement in the way collections were happening and the way we were coming back but yes, there is some stress in specific areas we do have some stress in the micro finance.

**Nidhesh Jain:** Sure Sir, understood. Lastly the mutual fund AUM number though it is very small contributed to our PNL has actually declined sequentially. What is the reason for that?

**Murali Vaidyanathan:** For us last year key theme was protection, there are two things we were getting ramping up our NTB numbers in terms of getting the quality customers in which we have succeeded we got the high variant customers in. Now, this year the focus will be on building up investment based AUM so, last year we focused on protection based AUM because of two reasons, one is our RM's going to face to face meting and digitally we were ready through the protection plans 100% of their policies which we sold whether it is LI, GI or HI is through digital. So, this year we are getting into the mode of selling investment proposition and for your information we have now created a digital platform in our mobile app as well as internet banking which is an integrated proposition where you can do risk assessment and goal identification and asset allocation online. So, this was not ready last year so, this year you will see a slight movement up there.

**Nidhesh Jain:** Sure Sir, Thank you. That is it from my side.

**Moderator:** Thank you. Next question is from the line of Deepan Sankara from Trust Line PMS. Please go ahead.

**Deepan Sankara:** Thanks a lot for the opportunity and congratulations for good set of numbers. I wanted to understand why this disbursement to NBFC segment has reduced substantially quarter-on-quarter and year-on-year?

**Ram Subramanian:** See last year as all of you know that there has been large impact at the borrower level and we wanted to be largely cautious with the NBFC sector even otherwise while we have been very clear about what sort of credit rating we will take last year we tightened our norms in not only credit rating but also in terms of their asset liability mismatch. So, because of which we were very cautious in terms of further disbursement unless they meet our stringent credit parameters. So, that is the reason the requirement I think in terms of the disbursement did not go up and you also would know that our collection efficiency is almost closer to 99.57% so while we were cautious we were also very clear about our credit quality that is the reason.

**Deepan Sankara:** Okay, so is it due to any specific sector based NBFC's or across the board we have taken this process?

**Ram Subramanian:** No, basically we have three types of segment we address, one is MFI, second is asset finance NBFCs and third is Housing Finance and it is independent of which sector they are in we were clear about our credit requirement and on that basis we disburse it is not about any specific sector.

**Deepan Sankara:** Okay, sure Sir. Thanks a lot 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:** Hi! Thanks. First question on the MFI side of things, in one of the slides you showed that the ticket sizes have started to go up from 20,000 to now touching 30,000. So, just want to understand the thought process there and the related one is the overall sort of discussion on the harmonization for the MFI industry as such. So, what are the broad thoughts around that as well?

**Dheeraj M:** On the MFI ticket size while you have seen an increase is largely because during the last year our focus was to look at existing customers whose loan cycles were getting matured so usually, I do not know if you notice but prior to the pandemic about 70% of our business used to be new to bank and now with the pandemic if that number has actually gone down so we have now focused on existing customers whose two year loans are getting matured and those customers we have renewed their loan. So, when they move from the first cycle to a second cycle or second to third the disbursement or the loan goes up so we may start with Rs. 26,000 – Rs. 27,000 but second cycle is Rs. 35,000 and Rs. 40,000. So, the reason why is our average ticket size increased is because more than 50% of our fresh loans have gone to customers who have moved from one cycle to the next.

**P N Vasudevan:** Yes, on the harmonization part of it RBI has announced that they will come with some guidelines so we are in touch with them and a draft guideline I think should coming out at some point in time and then final guideline may be subsequent to that. But conceptually I think that is exactly what actually we have been pushing for a long time now because the borrowers are same whoever be in a format of the lender borrower is the same so unless there is a certain level of uniformity in terms of how do we assess the credit worthiness and how much do we give per borrower unless there is a uniformity it could always lead to stress at the ground level. So, I think harmonization is a good thing to happen and we should await details from RBI shortly.

**Abhijeet Sakhare:** Just a follow up on that one you expect to be disruptive in any which ways for SFB's as such?

**P N Vasudevan:** Well I do not think so because even without regulatory harmonization we have the MFIN and most of us I think most of the SFB's or may be all the SFB's are signatories to some code of conduct at the industry level. So, as it is most of us follow some form of rule I mean, I would not say that all of us follow exactly the same rule but I think we all follow some level of prudent rules. So, whenever the harmonization comes I do not think it will be dramatically different from what we do now. So, I think it should be more or less in line with what we are doing but it is just ensuring that a few rough edge of here and there get ironed out, this is from the SFB perspective. But if you look at the Bank perspective yes, that could be a little a larger impact because some of the banks are not even signatories to that code so we have no idea of what is happening in those banks so, we really would not be able to comment on that. But as far as SFB's are concerned most of us follow some level of prudent already as it is.

**Abhijeet Sakhare:** Sure, second question was on the liability side of it, given the strong traction on the savings account side obviously the average balances have started to go up quite a lot but when I look at that by pie chart with the mix of ticket sizes it still seems to be a very bulky book. So, at what part of time would you start worrying about starting to make it little more granular or probably start reducing the rates just to test the book or at least establish the stickiness of the customer on that book?

**Murali Vaidyanathan:** Good question, see already we have done that. Commencing April, we are holding 7% only up to greater than 2 Crores it is brought down (a), (b) now what is happening is in the bulk book we are also having ultra HNI's also who have moved in and few of the ultra HNI family account and trust accounts have also come in thanks to the fixed income securities and debt market people who are seeing this as an attractive proposition. So, if is not only institutional money which we have, we have ultra HNI money also. But over a period of time we want to see that like how we reduced the bulk dependency on TD we have in that direction to bring down the bulk dependency on SA also. Presently we have 50%-55% or it is close to 60% retail, 40% on bulk there we will end up in another say six months, eight months' time incrementally another 10% percentage more it is 70% of absolute retail that is happening from that perspective.

**Abhijeet Sakhare:** Sure, just one final one, do we engage with any agencies or third parties to resort these deposits how do they come through in such?

**Murali Vaidyanathan:** It is a hard working job from the front end using the physical direct digital mode. So, HNI's and ultra HNI's and middle class come through phygital mode that is physical plus branch and leveraging on digital and which I call it as a mass account less that 1 Lakh or less than 50,000 if comes through the digital mode so it is directly door to door we have an organized data base through which we work and we have a catchment approach to get HNI and ultra HNI as a conscious activity and we do not have any DSA or outsource arrangement to source this.

On digital side we have recently got into a Fintech tie up to leverage on their customers to sell savings account or FD product we have Groww who will use our FD as asset allocation then we have tied up with Niyo who will go and get me an account for their wealth management customer are savings account. So, these are the two Fintech partners, this is for the mass segment.

**Abhijeet Sakhare:** Got it. Great, thank you a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please go ahead.

**Aman Ahluwalia:** Thank you very much. Two questions, one just a follow up on the new MFI that harmonization guidelines. So, as I understand that one of things are they proposed over there is a 10% cap on the spread which currently applies to NBFC MFI's but not the banks.

In the event that that were to come in would that immediately sort of compressed our yield on funds and what do you think that does to us and to the competitive dynamic between us and the NBFC's would you see certain types of borrowers gravitate or need more credit worthiness one could gravitate to the SFB's and the NBFC MFI's can take the higher risk borrowers. But just curious to see that 10% cap is brought in that is clearly a head line level impact on yields I am wondering in that anything that could offset it.

Secondly, in terms of the evolution on the cost to income ratio, cost went up quite a bit this year on a year-on-year basis and I think you will tribute it when you we sum up that to the pandemic I am just curious in what respect does the pandemic elevate operating cost and finally in terms of on the regulatory issues surrounding the SFB and the Holdco it seems that there are two there is obviously the issue whether the RBI will accept the recommendation of the interim working group and allow for a straight exit without a meeting an intermediate threshold and the issue SEBI being willing to exempt from the promoter lock in. So, if we assume that RBI gives the approval but SEBI does not is it fair to say that you will then just start the process wait till October-2023 and then merge the Holdco and the Bank and if neither of them approve it will the preference be to dilute at the Holdco level via acquisition or to actually sell a stake in the SFB and raise cash at the Holdco level?

**P N Vasudevan:** So, on the first point in terms of margin cap, you know that 10% cap which is applicable for an NBFC MFI I think it is good enough cap for SFB's or Banks also only thing is that you have to figure out what is your cost of funds. For an MFI the cost of funds is actually the rate which they borrow from the bank there is no other cost to them. For a Bank the cost of funds is basically your deposit cost and then you have to add your reserves cost SLR, CRR and then you have to add the cost of raising the deposits through your branches and branch banking. So, if you kind of take into account all of this cost and arrive at your actual cost of funds then you apply 10% margin on top of that I think that is fair enough, I do not see any issue on that.

**Aman Ahluwalia:** Will the RBI look at it that way or will they just say no take your head line cost of funds?

**P N Vasudevan:** No, see cost of funds is cost of funds will not be defined like that if look at the MCLR formula given the RBI earlier for pricing a loan even in that cost of funds they have taken the cost of deposits as well as your SLR, CRR cost and then the margin includes the return on equity. So, there they are fairly clear I do not see any issue on that and we are also in dialogue with them anyway and so let us see what comes out finally but I think this is fairly reasonable to expect.

That is the first point and the last point is that yes, if RBI approves the merger then we will definitely have to reach out SEBI for that three-year exemption and if they give it the we will be able to do it quickly and if that does not come through then we may still complete the entire merger process and make the effective date as October-2023 or something like that. But that is the bridge that we have cross only at that point in time so, first our job is to get RBI approval and then reach out to SEBI.

**Sridharan N:** With regards to the Opex, if you look at there are fixed costs and then there are variable costs, like employee cost, rent all these things are fixed cost so, around 70% is a fixed cost. There is a variable cost which is in proportion to the business close to 25% to 30% that varies actually there are some semi-variable sort of things. So, in the pandemic this 25% to 30% of the cost it generally would have come down otherwise fixed cost remain the same.

**Pawan Ahluwalia:** Okay, thank you very much.

**Moderator:** Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

**Shreepal Doshi:** Good afternoon and thank you for giving me the opportunity. Sir, my question is on our strategy or thought process on how do we see the loan book mix changing and the related question is how do we see the NIMs sort of ranging as you said depending upon the micro finance portfolio which having a very high sensitivity on the NIM. So, that is the question that I had.

**P N Vasudevan:** So, in terms of the product mix I think we are fairly reached our destination product mix level. MFI we have always been saying that MFI we would like to stabilize it and see it at around of 15% - 17% level and it is currently at about 18% and the remaining small business loans 40% to 45%, commercial vehicle around 25% and the remaining being SME and NBFC lending so, I think we are more or less and our steady state product mix and our affordable housing is something we started about a year back so that is starting to contribute and then there are few supplementary products like used car we started that starting to contribute but these are all supplementary or kind of product extension that will keep happening, gold loan is other thing. But otherwise we are not really looking to launch any new vertical as such because we are fairly comfortable with the product mix that we have today and so given that I think the NIM should probably stabilize may be in a couple of quarters from today we might see that the product mix is more or less becoming stable which would then means that everything else also should be close to the stability level.

**Shreepal Doshi:** Right, so then is it fair to assume that the NIM would range say between 8.5% and 9% sort of a number?

**P N Vasudevan:** Well I am not giving a guidance on that but I think in a couple of quarters we should see them stabilizing because as I said our product mix is very close to our destination level.

**Shreepal Doshi:** Okay, and Sir the second question was with respect to like, I just saw an article wherein we have started a hospital also so, and it is all sort of say that it is a venture that we are entering in this so is that a strategy that we are venturing in that segment or what is that?

**P N Vasudevan:** Yes, that is part of our CSR, so we have trust called Equitas Health Care Foundation, so that is the CSR activity part of our CSR contributions and that is jointly with Shringeri Shardha Mutt they have joined with us to get this project going and we are also in touch with other potential foundations across the country to try and support us in that project so, it is basically part of our CSR.

**Shreepal Doshi:** Okay. Thank you so much, all other questions have been answered. Thank you.

**Moderator:** Thank you. The next question is from the line of Abhishek Murarka from IIFL Capital. Please go ahead.

**Abhishek Murarka:** Hi! Good afternoon. Congratulations for the quarter. Two or three questions, first thing is I know you have given a lot of clarification on the SA rates but I just wanted to know how do you monitor the stickiness of these retail SA customers and what will give you comfort to drop rates. We have seen a couple of other competitors dropping rates even in the retail segment right, not just the bulk. So, just wanted to know how your strategy will work over there?

**Murali Vaidyanathan:** We track customers based on primary, active and product holding these are the three parameters in which you calibrate, measure and monitor. So, when I say primary, primary are those customers who maintain balance and who transact with you. So, these are the customer where you will look for the next product selling so, that is one part happening. Second part that is happening is people who does not maintain balance but use your platform for transaction closer to AMB these are the people where you dedicate a RM and make them start maintaining AMB and then start selling the second product and third are those products who will just use your platform only for transaction let us not talk about this. So, less than 1 lakh customers we are seeing they are getting closer to one lakh as aspiration which is the quarter-on-quarter presently we have reached our book size of Rs. 75,000 at average balance which was Rs. 48,000 – Rs. 49,000 before that it was Rs. 36,000. So, steady build up of retail customers are happening and they are transacting and building balances. So, how do we manage second part of your yes, when do we drop rate, see most of the banks drop rate after reaching a critical value in terms of SA for example one of the big private bank went up to a lakh of Crore of SA before dropping from six to say four for example another bank which was 7% raised up to Rs. 50,000 – Rs. 60,000 Crores of SA and accumulated close to 2 and ½ million of customer and then dropped it by 100 basis points. So, definitely head room for us to reach we are just now Rs. 5,000 Crores okay, till Rs. 10,000 Crores I am sure you will also accept we need to get in good customers and making them transact. The biggest viability here is how fast you cross sell the second product, how active you keep them so that you make transaction and cross sell revenue. I think that is one thing which is happening what you reflect there is number insurance policy sold last year reached up to a lakh. So, these are all is a byproduct only for customer keeps balance, transact, I can do cross sell, so we are on that right direction towards that. So, this year at the beginning we have dropped the bulk rate above SA for 6% that is any amount above 2 Crore and up to 50 Crore we have already made it to 6% proactively to keep the cost under check and in the matrix level we are at 65% - 66% of retail as shown in the chart or close to 70% of SA is less than or on the retail bucket 30% is on bulk that will automatically calibrate when this rate drop.

**Abhishek Murarka:** Okay, and safe to assume that all these cross sale numbers so MF gross sale or insurance gross sale that is largely to own customers your liability customers?

**Murali Vaidyanathan:** Yes, only if you have liability savings account we do all these products we do not do stand alone for any one either in investment or insurance because it is linked into the savings account.

**Abhishek Murarka:** Okay, great that is clear. The second question is if you think just your customer segment chances are that over the last one year they have eaten onto their savings and they are probably one medical exigency away from probably getting into overdue or NPA situation. Would you not then think about increasing your provision buffers or is that not the case and you think your customer profile has enough savings to actually let us say go through a second wave without getting impacted. How are you thinking about provision in this respect?

**P N Vasudevan:** Yes, I think we have mentioned that a little bit earlier also, basically under IRAC norms you cannot create a general pool of provision and just keep it on top of your portfolio that is not permitted. So, you have to create specific account wise provision and which is what exactly we did in December, we increased the level of provision in each of the buckets of NPA, each of the slabs of NPA we increased the level of provision so that we can we have a higher level of provisions built in against the stressed book. So, having said that we will keep watching and monitoring the scenario and we will have to see how the first quarter goes and based on how the first quarter goes we will have to see what level of potential stress that might come up in the subsequent quarters and also whether RBI will come back like last year whether they will come back with one-time permission to the banks to create a general provision. So, if this to happen we will definitely be looking at it. So, that is something that we will have to just see and take it as it comes.

**Abhishek Murarka:** Okay, and just finally couple of data keeping question, one could share the transfer pricing that you have for your asset verticals and also if you could give the blended yield for the new vehicle and the used vehicle book?

**P N Vasudevan:** Okay, so on the transfer pricing and the internal ROA's and ROE's product wise and all that we do not share that publicly because it has certain sensitivity around that so I am sorry that we will not be able to share that. On the yield part, weighted IRR for used vehicle book is around 22% and new vehicle is around 14%.

**Abhishek Murarka:** Okay, sure. So, thanks Vasu and all the best.

**P N Vasudevan:** Thank you. So, with that I think we should come to an end of this conference call and before you all drop of the line just hold on for a minute, I have one last small piece of message to communicate. Two things, one is that Equitas is a Latin word and Equitas in Latin means Equitable, Equitable means being fair and transparent so, one is that as an organization right from 2007 we are always committed to being absolutely fair and totally transparent so you should never find anything in us which you think is little doubtful or something and if any of you find anything which does not look right, does not look fair or does not look transparent you have every right, right to demand from us whatever that looks wrong and we have a duty to ensure that we clarify that very properly and publicly. So, that is one thing which I wanted to communicate. Second thing is that as a management you all know the we are always extremely prudent and very conservative in the way we do the business and so that is something that will continue to guide us and it is all the more required in time like this and so we will continue to be very cautious, very conservative and very prudent in whatever we do. Our first focus will be our staff, second focus will be our collection and third focus will be our business, so our focus will remain in that order and we will have to see how the second wave goes but clearly we will continue to be following the same method of conservative approach that we adopted all these years. Thank you very much and wish all of you all the very best.

**Moderator:** Thank you. On behalf of Equitas Small Finance Bank Limited we can close this conference. Thank you for joining us. You may now disconnect your lines.