"Equitas Small Finance Bank Limited Earnings Call Q1 FY2023"

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Moderator: Ladies and gentlemen, good day and welcome to earnings call of Equitas Small Finance Bank Limited financial performance for Q1 FY2023. We have with us today Mr. P.N. Vasudevan - M.D and CEO, Mr. Murali Vaidyanathan – Senior President and Country Head, Branch Banking, Liabilities, Product, and Wealth, Mr. Rohit Phadke – Senior President and Head Assets, Mr. Natrajan M – President and Heed Treasury, Mr. Dheeraj M – SVP and Head Strategy IR, BI, and customer experience, Mr. Rahul Rajagopalan – DVP Strategy and IR, 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: Good morning to all of you and thank you for taking time out to be with us today. The financial year has started off well for the industry as a whole with pickup of credit growth, increased economic activity and the declining worry of any residual shocks from COVID. In the segment Equitas operates we are seeing very positive sentiments across small fleet owners, small business owners, and an upgrade in the housing sentiments also. Inflationary worries have not yet crept into this segment and the impact of inflation on household consumption, investment etc remains unclear at this point in time. We largely believe that segment that we serve will generally remain reasonably resilient to inflation because they deal with daily use product and services and their ability to adjust their selling price or service charges based on certain increase in their own input cost is very high given the fact that they are dealing with daily products and services. Coming to the first quarter performance it has been largely in line as disbursements remain strong despite the seasonal first quarter sluggishness. Our fee income has been robust. We had a very strong growth in our liabilities and our asset quality has been consistently improving. Our advances excluding the restructured loans are behaving normally and almost all the parameters of performance, the non- restructured book which is approximately around 95% of the total book has come back to the pre-COVID levels practically in all parameters in terms of performance matrix. The annualized gross slippage for the non- restructured book in the first quarter was 2.7% which is back to almost the old levels and that book also exhibits very strong expected collection which means that build up of stress into the future quarters is also very comfortable. Our provisions made during the quarter is elevated since we increased our provisions of those restructured accounts in the last year which has slipped into NPA in the first quarter. We increase the provision on these assets specifically with respect to vehicle finance where it has moved to 100% and small business loan which moved to 25%. If you remember during the last quarter itself for the micro finance we have done a similar action that all restructured book in micro finance which slipped into NPA, we moved into 100% provision in the last quarter itself. This quarter we have added the vehicle finance into that category of moving it to D1 which in our case for D1 is 100% provision and for small business loan again D1 means 25% provision. So because of this for the quarter we had about an additional provision of 76 Crores which we did in the first quarter, but this we believe is a one off because as you know our restructured book itself is coming down consistently quarter after quarter and most of the restructured book is behind us and we expect that the credit cost should start to normalize going forward. The bank continues to invest in technology to ensure we are future ready. We have now revamped our loan origination system for vehicle finance and that has now rolled out all over India and the work is under way to introduce a similar state of the art loan origination system for the rest of the product. This we believe will help us further improve our sales productivity and reduce our disbursement turnaround time. On the digital transformation we are actively engaging with partners to draw out a plan that will help us leverage cloud data and customers and you shall be hearing shortly from us on this initiatives as they progress. Lastly we have progress well on our reverse merger. We have filed the scheme NCLT and we have received the order of NCLT for convening the meetings of creditors and share holders, these are fixed on the 6th and 7th September, so the progress on the merger scheme is going actually slightly ahead of our estimate itself. We had guided that by March 23 we should be able to complete the merger but we believe that we will probably do that a few months ahead of that schedule. Thank you so much. Now I hand over to Rohit to talk about the asset side of the bank.

Rohit Phadke: Good morning everybody. This is Rohit here. The last quarters have been good for advances, witnessing 22% year on year and 5% quarter on quarter. We have seen stable growth across all the segments. Our disbursements of 3238 Crores was the highest ever in the beginning quarter of the year. In small business loans we continued to witness strong growth and good log-ins. Here we cater to the informal segment and we also now plan to cover the formal segment in loan against property going forward. In vehicle finance, vehicle sales continued to show a upward trend, CV sales were higher by 4% from the pre-COVID levels in June 19. If we compare the sales in June 2021 with June 2021 sales were higher at 89%. We have disbursed 889 Crores which is phenomenal growth because first quarter of last year we had very low disbursements. We also saw the highest ever disbursements in the used car segment which we started catering to last year. Freight rate have stabilized and the free cash flow for operators has also stabilized because fuel prices have been rationalize across so vehicle replacement demand has come back. Prices of used vehicles have also seen a slight increase. The most comforting part is that two wheeler sales have grown by 20% which does indicate that the stress in the rural segment has come down and the rural segment has begun to grow so two wheeler sales grew by 20% year on year though they are yet to reach the pre-COVID levels. In micro finance our X bucket efficiency remains stable at about 99%. We have seen improvements across however some pockets in the south namely Kumbakonam, Pondicherry, and Mayiladuthurai continue to show less improvement over the other regions. Affordable housing continues to show strong growth. We are now present in in 35 branches and other than West t we are now live in the southern states of Tamil Nadu, Andhra Pradesh, and Telangana and Karnataka. We see good growth momentum across segments and as Vasu Sir explained that the impact of commodity prices and inflation is unclear. We see strong growth and I am quite optimistic that the quarter ahead which is the festive season coming ahead will show good growth.

Murali Vaidyanathan: Hello good morning Murali here. I would like to give you a perspective of liability, branch banking, TPP, digital and marketing. As we are aware we are continuing the journey what we laid for last two three quarters on focusing on key segments. I would like to give you some highlight which actually gives us the confidence that we are traveling in the right direction. Our program elite which is meant for middle class growth is now close to 40% of the book that is Rs. 8900+ Crores and increasingly it is because of the primary reason the proportion and the relationship management structure which we netted behind it is actually showing us a good trajectory so that is one good perspective which is contributing towards built up of the segment. Most importantly saving centric approach and third important parameter which is happening is do it yourself we are seeing more from this segment so early, it is one prime driver, second key highlight for this quarter is NR book crossing Rs. 1,000 Crores as a key measurement index. I am sure that all of us aware almost all of the SFB does not have a presence nor can we have representation outside India despite the fact the percentage of goodwill beyond banking initiatives through marketing and most importantly the virtual RM based on time zone is actually helping us to grow the book. It is not few customers we are adding granular customers month on month and most importantly the active customers and the primary customers of NR has now got up to 80%. Now third important perspective which is giving us most comfort in terms of two things is people's aspiration towards saving and spending that is we call it as a demography that is entry level customers which you get through digital mode so we are now having a B2C selfie that book has crossed Rs. 500 Crores and we have a tie up with Neo and which has also crossed R.s 500 Crores which means Rs. 1,000 Crores of book which is now close to 8 to 9% of our entire liability based has started coming from digitally sourced account. Our ambition is to double it and we are on towards the trajectory, but the most important part here is the demographic excellence is actually helping the branches to get more customers so now the relationship management structure which we have put in is actually helping us and now we have a full stack of UKYC convention and virtual management through CLCM so the entire VKYC to full KYC to business correspondent all these three things are actually happening us to get digitally savvy, demographic centric customers, so now all these three things backed by we have a strong propensity data lead management system which we run here that is helping us for cross sell also. So if we look into it whether it is AUM growth, whether it is a overall protection penetration into the book the actual activation of debit card where to go and how to get the unique card so the only favor as a echo system which we started two years back now it is expanded into spender, now it has expanded into investor now we have a tie up which has happened which has helped us to get into three in one accounts those demat we have now recently tied up with HDFC Securities also so the extension of favor to the investor is actually propelling the balances and last but not the least these are backed by predominantly marketing campaign, high visibility, high penetration, high impact which we do it through predominantly on social media platform and sticking to our core theme of beyond banking as an initiative so all coupled this put together and on one slide which we will touch when we have the question and answer session, the absolute transaction active part and primary part is actually propelling our customers to get more and more engaged through do it yourself mode. I think we continue to hold our retail focus. We are now close to 80% of our book is retail and very important part is individuals are close to 65% of the total book composition increasingly that will try to expand it also so overall we are looking ahead with lot of optimism, lot of planning and most importantly integrating multiple departments towards giving customer first as an objective and I will hand it over to Dheeraj.

Dheeraj M: Good morning all of you, Dheeraj here so this time I will walk you through the performance of the Bank as Sridharan is not feeling well and is on leave. Our the net interest income it came in Rs. 581 Crores as compared to Rs. 461 Crores during the same quarter last year registering a 26% YoY growth. Other income came in stood at Rs. 100 Crores as compared to Rs. 59 Crores the same quarter last year registering a 69% YoY growth. Net income grew at 31% and came in at Rs. 681 Crores for the quarter as compared to Rs. 520 Crores during the previous quarter last year. On treasury front, the profit on sale of investments for the quarter is about Rs. 6.25 Crores and MTM loss on investment was relatively less than a Crore, Rs. 0.83 Crores to be precise. From next quarter onwards we will invite Natarajan, our Head of Treasury to talk to us more about the Bank's treasury operation, coming to opex front, the total operating expenditure came at Rs. 412 Crores as compared to Rs. 356 Crores during the same quarter last year. Employee expenses for the quarter takes into account reversal of employee provision of Rs. 31 Crores. This is related to COVID policy and some performance incentive which we have provided for. Adjusting for this our opex would been about Rs. 445 Crores instead of Rs. 411 as we have reported.

On a daily average basis our cost of funds has improved by 73 basis point and is now at 6.2%. PPoP came in at Rs. 269 Crores as compared to Rs. 164 Crores during the same quarter last year thereby registering a growth of 63% YoY. Our PPOP in terms of percentage to assets expanded and is at 3.87% compared to 2.65%. Our PAT came in at **Rs.** 97 Crores as against Rs. 12 Crores same quarter last year. Now talking on the asset quality, provisions and restructuring pool, the total restructuring pool now stands at Rs. 1,190 Crores. We have given segment wise break up and some other parameters in the presentation. The bank now carries total provision of Rs. 603 Crores. To give you the break up, NPA provision is about Rs. 415 Crores, provisions on restructured standard asset is about Rs. 114 Crores, provision on standard assets is Rs. 61 Crores and we made an additional provision on standard assets or what we would call management overlay is about Rs. 13 Crores. GNPA came in at 3.95% in Q1FY23 as compared to 4.06% in the sequential quarter previous to this. NNPA came in at 2.07% compared to 2.37% in Q4FY22. Our provision coverage ratio has improved because we made some additional provisions and we have mentioned the details in the presentation so the PCR has improved to 48%, credit cost came at 2.68%. Provisions on Q1FY23 is Rs. 142 Crores which comprises of Rs. 95 Crores from restructured loans and Rs. 47 from the non-restructured book. During the quarter the Bank also saw gross slippages at Rs. 296 Crores, and 53% of this Rs. 296 Crores is actually moved in from the restructured pool. Write off during the quarter was about Rs. 130 Crores. Lastly we remain well capitalized and in June our capital adequacy was 24.62%. LCR has also improved sharply to 211% as we have been focusing on better quality deposit. With this, I would like to hand over to operator and we can start the Q&A session..

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

Shreepal Doshi: So just wanted to check out of the Rs. 1,764 Crores of restructured pool that we had as on Q3 what has led to NPA and what is the write-off from the same like Rs. 1,764 Crores of the pool and how much have we collected from this pool wanted to get this number.

Rohit Phadke: So last quarter we were at Rs. 286 Crores in terms of NPA and this quarter we are showing Rs. 271 Crores but this takes into account we have written of micro finance loans of Rs. 95 Crores so roughly you can say about Rs. 80 odd Crores were added.

Shreepal Doshi: So basically the NPA is Rs. 271 Crores outstanding and the write of is Rs. 95 Crores from that Rs. 1,764 Crores pool and the remaining would have recovered and that is how the outstanding restructured book is Rs. 1,190 Crores.

Rohit Phadke: Correct, correct the normal rundown is also there.

Shreepal Doshi: In your presentation on slide 9 we show segment wise detail so there the average ticket size disbursement for MSE has gone up significantly high on a sequential basis so is there a change in thought process there or strategy there. Last quarter it was Rs. 4.6 million. This quarter it is Rs. 8.6 million.

Rohit Phadke: There is no change in strategy as far as MSE is concerned. We will continue to focus on the mid segment. We do not want to focus on the large ticket size so we are clear and there is no change in strategy there.

Dheeraj M: In MSE there are two types of loan so one is the working capital loan which we give and the other one which is called Treads which is screen based lending so there the ticket sizes would have improved which has resulted in this.

Shreepal Doshi: Okay so there the ticket size is like materially high or what would be the ticket size range there.

Rohit Phadke: Okay there the Treads ticket size is generally Rs. 1 to Rs. 5 Crores compared to the working capital loans which are Rs. 25 to Rs. 50 lakhs.

Shreepal Doshi: Okay got it. Thank you so much for answering my questions.

Moderator: Thank you. The next question is from the line of Savi Jain from 2Point2 Capital. Please go ahead.

Savi Jain: So one is I just wanted to know the guidance for credit cost for the full financial year FY2023. I mean we have had very high credit cost this quarter so what is the expectation for the full year.

Rohit Phadke: We will be below 2% for the year because we are witnessing improving collection efficiencies also in the restructured book, see most of the restructured book was in the vehicle finance segment and there you know even while recovery we realize that loss on sale of vehicles is decreasing. The price of used vehicles is going up so we will see lesser credit cost going ahead.

Dheeraj M: So just to be little sharper. What we have said in the past is 1.5% credit cost. This takes into account a couple of factors. One it takes into account the guidance we have given in terms of loan growth about 30% and it also takes into account some level of beefing up our PCR and the provisions we need to make in regard to the restructured loans so far we seem to be track of that on those targets so we are quite hopeful that we will contain it at 1.5% for the year. I think Rohit was just trying to give you a slightly broader range but at this point in time that is what we are seeing.

Savi Jain: So most of the provisioning has been done this quarter or the rest of the year will be at normalized level or you expect another round of elevated provisioning and then sharp decline thereafter.

Dheeraj M: So it may not be uniformly distributed in the remaining three quarter so you may see some elevation in Q2 but definitely not in the lines you saw in Q1 and again Q1 Rs. 76 Crores is because we made some additional provisions which is reflecting in the improvement in PCR but we do not foresee that this level of provisions or credit cost will hit us in Q2 but Q3 and Q4 definitely will normalize to almost business as usual credit cost.

Savi Jain: And second was one of the opex, the opex does not seem to still stabilize it is still increasing every quarter so when do we see stabilization in the opex.

Dheeraj M: So just from opex stabilization in terms of percentage we can understand so Q1 also has wage inflation which is reflected so you will not see that level of growth and this typically happens for most organization in Q1 so you should not see the same rate of growth every quarter clearly but in terms cost to incomes comes in and obviously the operating expense will not grow at the same pace.

Savi Jain: So I understand the employee expenses but the other expenses for example in Q4 was Rs. 148 Crores it has gone up to Rs. 169 Crores in Q1 alone so is this a trajectory that is going to follow because in that case there will still be substantial increase.

Dheeraj M: As I think Vasu’s commentary also had mentioned we are making some investments in technology to help increase business so these are largely in the digital transformation space. We have already gone live with the loan origination system for vehicles and some of them will reflect in the technology expense which comes under the other expense. These are technology not from Fintech technology but technology as foundation to the bank and we are now 5 years old so there are some upgrades which are happening but we do not think it will derail any of the cost to income or opex to assets numbers. It will be calibrated.

Savi Jain: So RoA for the full year should be above 2% in that case.

Dheeraj M: At this point in time we are silent to it. I think what is more important is to see RoA hit 2% for a quarter then we will discuss of how more it can go to so at this point in time please pardon us for not answering that.

Savi Jain: Okay. That is all from my side.

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

Renish: Hi Sir, congrats on great set of numbers. Just two questions, again sort of one the restructuring side out of total slippages this quarter how much was or this quarter.

Dheeraj M: 53% of Rs. 296 Crores has flown from the restructured book, so about Rs. 156 Crores.

Renish: From the restructured book.

Dheeraj M: Yes.

Renish: And secondly on the PCR point. We have been always mentioning the LGD in vehicle finance will be lower and not of course at the 100% level so what is the thought process behind sort of improving the coverage in vehicle finance in case to 100%.

Dheeraj M: So Renish last quarter we had given our coverage policy so if you see that doubtful one becomes 100% and this is an isolated provision I think we did two years back. I think you should draw comfort from the policy which we have so every incremental NPA is getting higher PCR then it was couple of years back so that is one.

Rohit Phadke: To add to what Dheeraj has said. The vehicle is earn and pay asset and its value is there till you use the vehicle. If the vehicle is stationery for some reason its value starts depreciating to make it start again you need investment in that so to just give you a perspective you will understand so If I compare the loss on sale in Q4 and Q1 and I am not going back into the COVID period. So if you just take Q4 and take the comparison between restructured and the normal regular book. If you take the restructured book, the loss on sale on the restructured book on vehicles where we had done restructuring in the COVID period it was 47% in Q4. The same loss has come down to 39% in Q1 and if you take the non-restructured book, the regular book in Q4, the loss on sale was 37% which has come down to 28%, so overall we had 45% loss in Q4. It has come down to 36% in Q1 so to be conservative we have decided to provide 100% but in actual as we go ahead the loss will keep decreasing because the prices of used vehicle will keep increasing. Another perspective which I want to give you see the cost as B6 vehicle as gone up phenomenally so who can afford a B6 vehicle a fleet operator who has got many vehicles who has got contract where the utilization is 100%, he can really go and buy a B6 vehicle. A B4 vehicle is still in demand and that is why the prices of B4 vehicles have gone up so that is another perspective to this.

Dheeraj M: And Renish the PCR on the vehicle finance restructured NPA pool is 77%.

Renish: So I was just confirming that we are maintaining the 30% growth that ends for FY2023.

Rohit Phadke: Yes Renish yes we will grow. See growth will be better because traditionally in India the festive season starts in August. In the end of August festive starts so August till October and November is a full festive season so we see growth. We are all poised for a growth.

Renish: Got it Sir. It is very helpful. Thank you everyone.

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

Nidhesh Jain: Hello Sir. Firstly, on restructured book how are we saying that we will not see more slippages from this book or incremental slippages from this book given that 60 to 90 DPD in the restructured book in Rs. 169 Crores, less 1 to 60 DPD number that you have shared among let us say is Rs. 40 Crores of pool. On Rs. 40 Crores of pool in last three months only one EMI is received so this Rs. 210 Crores of pool which have high probability of slippage even if we assume let us say 50% of that getting slippage that will still lead to reasonably high credit cost in coming quarter.

Dheeraj M: Nidhesh before Rohit comes in just want to put that credit cost to this number. Let us stick with your number. Let us say Rs. 200 odd Crores about 80% is vehicle finance and secured so there the LGD is about 40% and the remaining 20% or thereabout is micro finance so if you look at it from that perspective impact on credit cost on a terminal basis may be only about half a percent of advances not saying that it will come next month, next quarter but if I go with your numbers and put the loss on repo numbers to that pool this is what it works out to but anyway I will give it to Rohit to talk more on what trends we are seeing.

Rohit Phadke: So Nidhesh even if you break this Rs. 169 Crores down, Rs. 64 Crores is from CV and Rs. 54 Crores is from SBL. In SBL there is no loss because it is fully backed by property and we see good recoveries in SBL. In Rs. 64 Crores of CV I am just giving you the breakup of the loss on sale when we repurchase the vehicle, the loss has come down from 45% to 36% on a overall basis and particularly if you talk about the restructured basis it has come down from 47% to 39% so as I explained as prices of vehicle keep going as growth picks up so I think this number will keep going down.

Dheeraj M: And Nidhesh I want to reclarify the restructured book has come back into billing now about 6 to 7 months back. It is more than that so in 7 month period if you have paid two EMIs and you are in that 60 to 90 that essentially means you have only missed two out of those seven EMIs so we will have to look at it from that perspective also.

Nidhesh Jain: Can you share this number, the disclosure that you have shared to 1 to 60. How is the 60 to 90 DPD book behaving in terms of customers who have paid only one EMI, two EMI, and three EMI in last three months.

Dheeraj M: Yes we will try to put that.

Nidhesh Jain: Because that will give some clarity that how much slippage may happen from this book? Secondly in terms of margin how should we think about this 8% margin given that we are scaling in formal small business loans we are scaling in affordable housing so what could be the margins. How will the margin trajectory will flow? If specifically also the cost of fund may start to inch up from next quarter.

Rohit Phadke: See 77% of our book in small business loans is new to bank and if I get into further segments it is high as 85% so we have the pricing power in the segments that we serve is number one, Number two home loans in the industry itself despite rising interest rates home loans have not slowed down so home loans across the industry the growth momentum is there, whether it is affordable or whether it is prime and inventory of home has also come down. New project launches are also at full swing and this being a festive season I do not see any problem there. Thirdly as we mature into products in the future I think we should look at risk adjusted return other than pure yields so as our credit cost keep coming down and our credit cost normalizes we should rather go to a more risk adjusted return that is what I feel.

Dheeraj M: I will also get Nat's to just talk on the cost of fund.

Natrajan M: Hi Nat's here. On the Cost of funds, through the rising policy rates are expected to go up I think the market is largely factoring in all this. As we speak today there is a rallying by 5 to 10 basis points in the last couple of days so any hike in interest rates which is expected by RBI is normally factored in so we do not expect the cost of deposit also to go up significantly from here and also from Equitas perspective we have already build up sufficient buffer as reflected in our higher and required LCR where we are sort of front loading in anticipation of hike in rates so we are well positioned to meet any sharp increase in the cost of funds.

Nidhesh Jain: What will be your estimate of cost of funds let us say in the current scenario assuming the information we have. It is typical to follow the interest rate but how should you see this cost of fund trending in coming quarters.

Natarajan M: You will not see automatic corresponding rise in rates. If the rates rise by 50bps it does not mean our cost of funds will rise by 50bps or 40 bps it can marginally inch up by 5 or 10 basis points.

Nidhesh Jain: Okay Sir thank you. That is it from my side.

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

Deepak Poddar: Thank you very much Sir for the opportunity. I just wanted to understand more on the credit cost front and now you did mention that 1.5% credit cost you are looking for the entire year. I just want to understand do you think it is little aggressive considering our first quarter credit cost is already at 2.8% and you expect second quarter to also be elevated so balance nine month I think our credit cost should be 1.1 to 1.2% to make it 1.5% for the entire year average so any comments that you want to make on that.

Rohit Phadke: See most of flows as we said even in the gross slippage 53% has flow in from the restructured book. What we noticed is the stark difference between the behavior of the normal book and the restructured book. Normal book delinquency, collection efficiencies are coming back to pre COVID level so what you saw in the first quarter was the effect. We started restructuring last year July and ended in about September, so the 12 months of restructuring are getting over this September but most of it we have upfronted by provisioning so according to me the pain will last only for one more month meaning July and then things will come back sharply, secondly the recoveries from the restructured also good particularly on the SBL and the CV side the recoveries are pretty good so that will help us in getting the credit cost down from the current elevated levels of 2.6 to 1.5% as the year goes by.

Deepak Poddar: So by 4Q if our credit cost reduces to 1.5% let us say so average would be at least around 2% right for the entire year.

Rohit Phadke: It might go down below 1.5%. In the fourth quarter your credit cost will be below 1.5% for that quarter.

Deepak Poddar: Okay understood. And what would be our PCR target is there any kind of target we have set for ourselves in terms of PCR because it is still at 48%.

Dheeraj M: Like we said earlier we have a long term that it should be at 70% but obviously we cannot do it this year because it can sacrifice ROA, PAT etc. What we have done is we have put a policy to drive that and that is what we shared last quarter so hopefully as the quarters go by you will start seeing PCR inch forward but internally we want to come to around 70%.

Deepak Poddar: 70% maybe two years would that be a fair timeline.

Dheeraj M: I cannot give a timeline right now because like I said it is function of write off, off slippages etc but we are working towards it.

Deepak Poddar: And my final query is on your cost to income so how do we see our cost to income going forward may be in next one to three years.

Dheeraj M: So we have got like we said from the model to work out we should be at 55% kind of cost to income. The idea is to start being stable at about 60% and then the move to about 55% those are the milestones we have and what we have also communicated earlier.

Deepak Poddar: Okay and this milestone is over next three years.

Dheeraj M: Yeah it should happen before that but I would say in the next two years you will start seeing at least some of these milestones getting hit.

Deepak Poddar: Fair enough. That is it from my side. All the very best Sir. Thank you very much.

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 Sir. As you said the restructuring, we had stopped restructuring and we had given 90 days moratorium so why that is the slippages from restructured has gone up in this quarter. I mean is there any specific reason versus last quarter ideally it should trend down, was there any particular reason for slippages to go up in this particular quarter.

Rohit Phadke: No it has come down sharply. It is Rs. 296 Crores compared to Rs. 400 Crores and something compared to Rs. 300 Crores and something so it coming down only.

Jai Mundhra: Only from restructuring.

Dheeraj M: Even the earlier Rs. 408 Crores is largely from restructuring.

Jai Mundhra: And second question which slightly different Sir is. In your vehicle book what is the degree of overlap between customer segment/geography with AU small finance bank for example. Just wanted to understand this thing. Is there any significant overlap or there is no material overlap in terms of geography and segment and products in vehicle.

Rohit Phadke: We cannot talk about competition.

Jai Mundhra: That is very helpful Sir. Thanks.

Moderator: Thank you. The next question is from the line of Rohan a retail investor. Please go ahead.

Rohan: Hi all. First of all thanks for the opportunity. Sir I have three questions. First is what is our plan to reduce the NPA to pre COVID levels. Second is regarding credit cards what are our road map to launching new credit cards and third is we have recently partnership with HDFC Securities so how will it benefit Equitas.

Murali V: See credit card. We are already running our white labeled co-branded credit with HDFC Bank. We have started distribution now so we are automating it to issue through the tab this is through the distribution mode. Will we have a credit card of our own, the evaluation and technical feasibility and initial discussions have started so that they will take sometime for us to come to the market and declare it so which means do we have a product to offer to a consumer in the form of co-branded, white labeled credit card, yes and we will go full throttle from this month. Second part on HDFC Securities as you know we are already distributing 3-in-1 of Aditya Birla and we have crossed 40,000 consumers who are actually using our 3-in-one active account. Now that we are getting aggressive into digital. We saw that digitally connected DIY mode sort of technology through which we align so that is why HDFC Securities comes in place where the entire alignment through digital happens, so we will have separate sort of stream for digital and separate sort of stream for physical so HDFC Securities is on that line.

Dheerraj M: On the NPA front, let us draw your attention to what the banks asset quality was before COVID and that will give you sense of how we used to operate and what is the impact of COVID so the numbers used to not be at 4%. It used to be in the 2% range now once the COVID impact is over and our segment is the bottom of the pyramid. It is not the prime segment where there will immediately bounce back, but this segment as you know rural and urban has been impacted fairly badly by the COVID especially the second wave, so if you will go through that process what I think you need to look is that the incremental pain is there that is not there like we said and I am sure you are also witnessing in terms of COVID, lock down etc so it is just a matter of time once this moves off the book and we should then revert back to our normal levels of credit cost of 1.25% NPA of 2.25% but it will take some time and I think lastly what is important is to understand Equitas book. We are only 18% micro finance which represents the unsecured portion. The rest is secured and in secured I think Rohit had spoke about vehicle finance, loss on repo is 40% which is the highest among the other products so all in all we are far more stable then what we were years back when demonetization happened and we are also fairly stable compared to other SFB’s who are in the evolving space, like I said the products are also fairly seasoned. These products are now well seasoned at least in two, three cycles now so that is the direction it should move back to.

Rohan: Okay thank you Sir for explaining in detail. My last question is regarding housing finance what do you oppose the growth strategy for the next five years regarding housing finance product.

Rohit Phadke: So clearly it is a growth area for us and we will ensure that we are present across the country and the product becomes a significant part of our portfolio going forward. Very clear strategy on this.

Rohan: Okay thank you and all the best.

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

Ashlesh: Can you please give a breakup of the gross slippages for the quarter across segments.

Dheeraj M: So the Rs. 296 Crores we spoke about like we said the restructured book is Rs. 156, the non-restructured book is Rs. 139 Crores. In this key segments I will talk only about the restructured pool. Our micro finance is about Rs. 36 Crores, vehicle finance is about Rs. 75 Crores, small business loans is about Rs. 40 odd Crores and the MSE about Rs. 3 odd Crores.

Ashlesh: Thanks and what about overall slippage number?

Dheeraj M: **Rs.** 296 Crores.

So overall micro finance is about Rs. 58 Crores, vehicle finance is about Rs. 130 Crores, small business loans is about Rs. 85 Crores. These are the large segments.

Ashlesh: Okay understood. Thanks for that. And second is on the MSE segment if I look at the restructured book that has not changed meaningfully but the gross NPA level in the book has gone up a bit.

Rohit Phadke: See what happens in restructured is once the account touches it NPA it stays restructured for 12 months even though the customer is paying regularly so we have some accounts in MSE where they are paying regularly, but they form a part of the restructured book because they had touch NPA once.

Ashlesh: The flow seems to have increased because that seems to be significant forward flow**.**

Rohit Phadke: It is a very small book, in MSE. If you look at total 61 to 90 is only Rs. 4 Crores and 1 to 60 is only Rs. 18 Crores.

Ashlesh: Okay understood. That is all from my side.

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

Ankit Bihani: Hi Sir. Congrats on a good set of numbers. I just wanted to ask what has been the impact of the new MFI regulations on your book. I believe the growth had been largely driven by ticket size increase this quarter. What will be the challenges due to the new regulation?

Rohit Phadke: We have always been conservative on the MFI side. If you look at our ticket size on our book is just about Rs. 21,000 so we are always very conservative on the MFI side so now the harmonization talks about Rs. 3 lakhs and if you consider Rs. 3 lakhs for the household the average ticket size will come to anywhere between Rs. 1.3 to Rs. 1.5 lakhs so we are nowhere in that game. I mean we want to play secure and we have always given a guidance that our unsecured book on micro finance will be in the range of 10% to 15% of our overall portfolio. So no real impact for us on the harmonization norm expect the fact that we have to make the regulatory changes in our system as RBI as recommended so that we are in process. It will lead to aggressive lending by others because the ticket size is moved up but I think the market is pretty big enough. We are very clear where we will operate. We are aware of the risks that it will cause in the micro finance industry because of some players trying to increase their ticket sizes so we will not do that. We will not play that game. We will play a very secure game.

Moderator: Thank you. The next question is from the line of Sarthak Shah individual investor. Please go ahead.

Sarthak Shah: Good morning Sir. So my question is regarding MTM loss as many banks are facing that so can expect one off from treasury department.

Natarajan M: Yes it is true that most banks have significant MTM loses but the major shock has happened in Q1. There was very sharp and unexpected out of cycle policy announcement by RBI so that has taken the market by surprise and that is why people who are not well positioned had to suffer MTM loses. As far as Equitas is concerned we have consciously ran a very clean book by the end of last quarter that is Q4 of last year so we build the book post the hikes by RBI so we did not suffer any MTM loss. Of course there is a very small MTM loss of around Rs. 83 lakhs given the size of the book it is insignificant and is part of the trading book. Even for the industry we do not express similar shocks in Q2 and talking about year we do not expect any major negative surprises from that front.

Sarthak Shah: Okay that is it from my side.

Moderator: Thank you very much. I now hand the conference over to Mr. P.N. Vasudevan for closing comments.

P.N. Vasudevan: Thank you for attending the conference and we hope that the first quarter performance will continue to reflect in the next quarters and we should look for a very good year as we go back. Thank you so much and thanks for being with us, bye.

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