"Equitas Small Finance Bank Limited Earnings Call Q1 FY2022"

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Moderator: Ladies and gentlemen, good day and welcome to the earnings call of Equitas Small Finance Bank Limited financial performance for Q1 FY2022. 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. Natrajan M - EVP & Head Treasury, Mr. Dheeraj Mohan - Head Strategy, IR BI & 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. Dheeraj Mohan. Thank you and over to you Sir!

Dheeraj Mohan: Thanks. Good morning all of you for taking time out on Saturday. The format of the call this time will be little different, as I would invite Vasu, Rohit, and Murali to talk about what we are seeing on the ground and how business has shaped up. This would be followed by Sridharan to give you the financial performance of the quarter.

Before I hand over the call to Vasu, I will touch upon the scheme of amalgamation, which the board approved on July 26, 2021. The scheme is also uploaded on our IR website and I hope you got time to go through it. Nevertheless, as you are aware that we have been working towards collapsing the Holdco structure as it gives shareholders direct ownership in the bank.

With the scheme of amalgamation, we would achieve this in the best possible manner. We expect to complete this transaction in about 12 months, as it requires approvals from RBI, SEBI, stock exchanges, shareholders and NCLT.

The swap ratio or share exchange ratio in the scheme is 226 shares of ESFB for every 100 shares of EHL. With this swap ratio, the effective holdco discount narrows down to about 3.6%, which is much lower than the capital gain tax the Holdco may have to pay if it sells down. Also the with this swap ratio the total number of shares outstanding at the bank post-merger will come down from approximately 114 Crs to 97 Crs shares. In effect, the book value per share would move up.

I sincerely look forward to all your support on the scheme as it seems to the best option available to unlock value for the holdco shareholders and reduce the liquidity risk in case of a down sell for the Bank shareholders.

Now, I would like to invite Vasu to take you through the business update.

P.N. Vasudevan: Good morning to all of you. I hope you had time to go through our quarterly performance. Before our CFO takes you through the financial performance, I would like to spend sometime on how the business is shaping up.

Wave 2 was a saddening experience with the effect of the virus visible from close quarters all around. We did extend our best support to our staff during the stress situation, but we lost a few of our colleagues unfortunately. We do hope the government's initiative to vaccinate gets greater momentum and we reach herd immunity soon. As a bank very conscious of our social obligations, we have conducted 3,799 vaccination camps jointly with local governments and helped to vaccinate about 4,45,566 people who are largely from the low income families and rural as of July 24, 2021.

Many of you may know Equitas right from 2007 has been actively focused on social activities in a bid to improve quality of life of the less privileged. We have been able to transform the fortunes of 100's, of 1000's people through this initiative. We recently launched the first series of communications connecting our customers with these initiatives. The Circle of Life for the first in line and if you have not seen it I would request you to please do so. We believe Equitas is a model institution combining strong professional business performance with deep empathy and active support of the less privileged. I am just told today morning that the Circle of Life video, which was available on YouTube, is recognized as one among the top 10 best videos for the month of June 2021.

Now moving back to business, as expected our lending business was quite impacted due to the lock downs as we could neither collect nor disburse. Most of our customers turned conservative and prefer to skip EMI payments to keep cash with themselves. This meant a significant portion of our non-delinquent portfolio of March 2021 started to slip and unlike in wave one, there was moratorium period either. As a result, we reached out to customers and if they wanted, we were willing to offer restructuring for their loans. We anticipate to restructure a total of around Rs. 1,400 to Rs. 1,700 Crores this year and making necessary provisions for the same, which we hope to see most of those provisions reverse in the next year. Out of this 1,400 to 1,700 Crores, we have so far restructured around 900 Crores.

Product segment more linked with the economy like MSE finance where we will lend to small SME with the turnover of Rs. 10 Crores to Rs. 25 Crores has seen a sharper deterioration in asset quality as these customers are seeing a slower bounce back. The portfolio is being closely monitored and we anticipate strong recovery in asset quality in the next few quarters. Historically if you this as this asset has always performed very well and we hope to get back to that old level very soon. In addition to the traditional working capital loan to MSE, we also ramped up our lending to the treads platform and that has actually been doing quite well.

On the liabilities front we continue to gain market share and some of the strategies we put in place have yielded good results. Murali will take you through it in more detail shortly.

Lastly to help all of you connect with the dots better post demonetization we had communicated that we would scale down micro finance, continue diversifying our loan portfolio and focus on building a retail liability franchise as a strategy to build a stable, sustainable and scaleable bank. I am happy that we have struck to the strategy and now we see ourselves ready for the next pace of growth. This hopefully will get complimented with the universal bank licence, which we should apply for once we complete five years of operation. Now, I would like Rohit to take you through what he is seeing on the asset of the bank. Thank you.

Rohit Phadke: Good morning everybody. I have three insights to share from the field. The first insight is about lead generation. Unlike the previous period post-COVID wave 1, the lead generation in the field seems to be strong, lead generation current post wave 2 is very strong and this is corroborated by the data from the bureaus where they confirm that we have moved a few notches up the ladder.

The second is about fleet capacity utilization. Fleet capacity utilization seems to be much better and is fast improving. This is reflected in improving collection efficiencies in vehicle finance. Diesel prices have increased by 26% in the first quarter and transporters have been able to pass on about 27% to 30% of the cost by way of increased freight rates. Freight rates have gone up by 7% to 10% with the beginning of the festive season from August; we do hope that this trend of increasing demand will continue and the transporters will be able to fully pass on the cost, improving both profitability and delinquency.

In micro finance post-COVID wave 2, we see a sharper recovery, which is reflected in increasing overall collection efficiencies. Overall collection efficiencies as of July 27, 2021 was at 91%, a steep increase over closing June of 67%. Post wave 1, we had seen a different trend in the collection in the one to thirty and thirty to sixty buckets in the January to March quarters. Many customers in these markets came forward and paid. Unfortunately, this trend was disrupted because of wave 2. We do hope that this trend will play out, improving efficiencies and delinquencies. Tamil Nadu seems to be making a very strong comeback. June was also a period of lock down in Tamil Nadu. In TN, X bucket collection efficiency in June was just about 64% and that has now moved up to about 98.2% as of July 27, 2021. Chennai district seems to have the strongest recovery with the X bucket collection efficiency of 99% and Erode seems to be the lowest with recovery with X bucket collection efficiency being at 96%. All other districts are in between 96% and 99%.

Small business loans is also making a strong comeback with disbursements nearly coming back to March levels in this month. X bucket collection efficiency have gone up from 96% to 98.7% as of July 27, 2021.

Overall, we are hopeful we are seeing a faster comeback to normalcy then the period post-COVID wave 1. Thank you, over to you, Murali.

Murali Vaidyanathan: Good morning, friends. Thank you for joining on a weekend. So, I would like to take you through the liability approach what we have done.

So as you all aware, our key intent is to how do we increase the retail mix of our total portfolio, how do we get the casa mix right and cost of funds within the optimum range of reduction. I think we are in the right direction towards setting a good benchmark for all of us. So, the critical journey here what we are talking is how do we get the geography focus through phygital approach and demography focus for digital approach. These are the two critical variables through which we are doing the entire exercise, so we leverage on phygital that is branch plus ATM plus digital processes to get our relationship management, to get our account acquisition to take care of the engagement as a key focus.

On digital side of the business, we focus on mass segment where with the demography stuff of through our own product called Selfie and through a fintech partner leveraging on absolute digital channel to get the mass acquisition right. I am happy to share that put together we have done what we have done last full year as in terms of number of accounts close to 5 lakhs accounts, close to 5.5 lakhs to be precise in the first quarter itself, which was our last year journey, that is one part. Having said that are we getting quality, leveraging on branches, leveraging on engagement model, focusing on mass affluent and HNI through specific programs called Elite and NR actually helped us to garner what we call it as the initial payment, what we garnered almost last year 80% of that we could get it on the first quarter.

So, overall quality of customers, quantity of customers, digital leveraging through engagement for digital channel, coordinating with fintech tie-ups, which we have already experimented with couple of fintech partners for our digital range of projects, all these three things have absolutely fallen in place and it has given us a good productivity and more importantly the engagement what we do through LMS and empower has actually assured us that product holding of consumer at a household level has gone up beyond two for at least 40% of the customer and also we have a specific channel, we keep saying virtual RM for up to certain set of customers and for NR customers based on time zones, we keep giving this opportunity so that nobody feels that they are let down, so this VRM as a model is picking up, TBRM through the propensity based campaign which we use. So, which means we identify based on their spent pattern, based on their expense pattern, based on their earning pattern, so we get the engagement parameter right and these things have yielded if you see on the TPP part where our protection as well as overall card utilization in fact we are one of the largest Visa card issuers for the first quarter, we have been recognized and awarded a special contribution on this time by Visa and I think summing of all these things casa 40%, retail 78% and cost of funds coming down, I think mass affluent and HNI preferring us for the banking, I think the trajectory seems to be good and this is backed by an extensive brand awareness campaign and customer centric campaign, which we promote through the marketing like Vasu Sir, rightly said our Circle of Life its only just the beginning point and I am sure we all will feel it very soon and actually we are one of the banks who keeps saying whatever the mobilize through liability is actually to the deserve set of society we deploy. With that note, I hand it over to Sridharan, who will take care of financial requirements.

Sridharan N: Thank you, Murali. Good morning to everyone. Our net interest income came at Rs. 461 Crores as compared to Rs. 404 Crores during the same quarter last year registering a growth of 14%. Other income came at Rs. 104 Crores as compared to Rs. 30 Crores. Net income grew 30% and came at Rs. 565 Crores for the quarter as compared to Rs. 434 Crores during the same quarter last year. The total operating expenditure came at Rs. 400 Crores as compared to Rs. 292 Crores in the same quarter last year. Pre-provisioning operating profit (PPoP) came at Rs. 164 Crores as compared to Rs. 142 Crores registering a growth of 16%. PAT for the quarter was affected due to provisions made on restructure account because of COVID 1.0 and 2.0. PAT for Q1 FY2022 came at Rs. 12 Crores as against Rs. 58 Crores during the same quarter last year.

Now moving onto asset quality, provisions and restructuring, we have restructured advances to the tune of Rs. 1,328 Crores under COVID 1.0 and COVID 2.0 framework. This forms around 7.5% of the gross advances. Advances restructured due to COVID 1.0 stands at Rs. 430 Crores and due to COVID 2.0 stands at Rs. 897 Crores of which now Rs. 400 Crores we have done in Q1 FY2022 and Rs. 497 Crores in July 2021. The bank carries a provision of Rs. 136.68 Crores towards all restructured book of Rs. 1,328 Crores, which implies a coverage of 10.3%.

Coming on to GNPA, GNPA for Q1 FY2022 came at 4.58% as compared to 3.59% in Q4 FY2021 and 2.68% in Q1 FY2021. Net NPA for Q1 FY2022 came at 2.29% as compared to 1.52% in Q4 FY2021 and 1.39% in Q1 FY2021. We did see upgrades and recoveries of around 30% of opening stock of GNPA, which is an encouraging sign. The provision coverage ratio stands at 51.21%. Lastly, on the capital front, as of March 31, 2021, the total CRAR stands at 24.07%, tier 1 of 22.06% and tier 2 of 1.47%.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Amit Khetan from Laburnum Capital. Please go ahead.

Amit Khetan: Good morning and thank you for the opportunity. Sir, a couple of things, first in billing efficiency and the vehicle finance portfolio so this continues to be below 70%, apart from COVID, what would be the impact of the diesel price hike on a CV customers and what kind of slippages of credit cost you had set for this vehicle finance portfolio for the year?

Rohit Phadke: So, collection efficiencies in vehicle finance have moved up as of June closing. The collection efficiency in vehicle finance has gone up from 67.35% in May 2021 to 89.3% as of June, so there is a sharp increase in the collection efficiency from May to June, we expect better collection efficiency in July closing. On Credit cost, I will not be able to comment currently, but we do hope that you know with rising sharper collection efficiency and with the restructuring of the portfolio, our overall collection efficiencies will improve and the credit cost will be lower.

Amit Khetan: Sir, I was actually talking about the billing efficiency, which is still below 70 and I also wanted to know what was the impact of diesel price hike on the CV customer?

Rohit Phadke: Sure, so billing efficiency as of May was 62.8%, which has gone up to about 69% as of June 2021 and billing efficiency will move up in July to I think to about in between 75% and 80%. The diesel price hike, as I said you know 26% increase in diesel prices as of the first quarter of 54% of diesel prices is what the constitute of the total freight cost. As of now, the transporter have been able to pass on about 7% to 10% and we do hope that you know with the festive season beginning in August, demand will increase and they will be able to pass on the full diesel cost in the freight rates.

Amit Khetan: Sure and secondly on the SBL disbursements for the quarter is similar to what we saw last year when there was a complete lock down, you mentioned that this is kind of recovered, is it back to the 600 to 700 Crores quarterly run rate that we had for the second half of FY2021?

P N Vasudevan: Yes, small business loans you know pre-COVID we used to be about Rs. 250 Crores a month so you can say about Rs. 700 Crores a quarter is to be what we used to do before they lock down started obviously last year due to lock down it all went down, but January to March quarter, we had small business loans coming back and doing about Rs. 700 Crores. July quarter, I think we should come back and probably better that, July itself has been very strong, you know the demand as we have been saying consistently for a long time now, the demand for credit from this segment always is very high, the supply always continues to be very low in spite of whatever number of players who come into the market, the supply continues to be very low, so that is not lack of demand as such, it is always a question of how do we reach out to them and try and do a proper cash flow based credit assessment and then take the right call on credit, so that is always a bigger challenge here, so we should see small business loans coming back, I mean it is our forte, it is our strongest product in the bouquet and we should see that coming back. In fact we have mentioned in page 5 of the investor presentation also that for July itself, the small business loan expect a disbursement is around Rs. 325 Crores and if that does happen it will be probably one of the highest that we have ever done before.

Amit Khetan: Sure, thank you.

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

Jai Mundhra: Good morning, Sir and thanks for the detailed disclosure once again. Sir, the question is on asset quality, so in FY2021 when there was a COVID 1.0, we have had slippages of around 3.5% to 4% of overall loans, Q1 we have done around 2.2% of the loans slippage and probably up to 10% of the loans would be restructured, now just to understand I mean after this restructuring done and maybe the 2% kind of slippages that we had should we see a reasonably back to normal level of slippages, I would not count the restructured loan slippage, but the non-restructured slippages should now that be pretty close to normal or that would be too early to assume that?

Rohit Phadke: So to answer your questions, it is like this, you are asking me how fast we will go back to normal, the answer is you know if you look at our July collection efficiency figures that we have given, so July is really coming back in a very strong way, see if you compare period post-COVID wave 1, and post wave 2, the recoveries in wave 2 are way faster than what happened in wave 1 both on the business front as well as on the delinquencies front.

A classic case is typically micro finance suffers a lot, so if you look at micro finance, as I said most of our portfolios in TN and TN is a classic example of how the come back can be, closing June, our overall collection efficiency was just about 67% whereas as of July 27, 2021, we have already moved up to about 98%, so this gives us tremendous hope, we have never seen this kind of sharp recovery and if you look at Tamil Nadu in specific, so it is 99% is the highest and 96% is the lowest, so I think you know by about September-October, we should be coming back to normal. The challenge for us is obviously you know once delinquency slips what happens in slippages your bucket get bloated and your buckets need to come back to your non-delinquent mode a regular portfolio, so that is a challenge for us and with the improving collection efficiencies we are quite confident that we should be able to get back to normal by September-October.

Jai Mundhra: Sorry, I missed, if you had mentioned about the July collection efficiency, have you mentioned for July collection efficiency product wise or this 98% is the blended number?

Rohit Phadke: No, see I have purposely told you about micro finance because you know it is an unsecured portfolio and people talk about tend to get more scared about unsecured portfolios and if this is happening in unsecured portfolio, obviously the collection efficiencies and recovery is in the secured portfolio is going to be much better. For instance - small business loans, our X bucket collection efficiency as of July 27, 2021 is 98.7%. Our X bucket collection efficiency in 1 to 30 bucket in Tamil Nadu is nearly 100% now so that is the level of improvement that we are seeing on the ground, but as I said the buckets are bloated due to slippages and our challenge is to get back these customers into regular customers so that will take sometime and that is why I am saying that by September or October, we seem to be in a more better position maybe back to normal.

Jai Mundhra: Sir, what I was trying to understand is, up to 10% of restructuring may be 2% of slippages, would that largely take care of the COVID 2.0 stress or you expect some more because as of June, coming for the month of May and June, the collection efficiency or the billing efficiency was around 77% odd, right, 23% of the customers are lagging of that 10% could get restructured and 2% was already slipped so, the rest how confident are you, I mean I was just trying to understand the missing piece there?

Rohit Phadke: So, you see we can restructure customers who have been standard as of March 31, 2021. Now customer who is being paying in standard as of March 31, 2021, has already crossed COVID wave 1 also, so his ability to come back we believe is much stronger, so I do not think other than what we have quoted, the restructuring numbers which Vasu has quoted, I think we will stick to that and I do not think we will see more slippages.

Jai Mundhra: Thank you, Sir and just last two small things, upon the scheme of amalgamation, would there be any change in the net worth of the bank or there should not any change because of the scheme in the absolute value?

Dheeraj Mohan: The holding company when it amalgamates will bring in some cash and that is added to the net worth, but what will get subtracted to the net worth is the total share is coming down from 114 to roughly 97 Crs, so there, there will be a reduction in share capital, net net broadly it should remain the same.

Jai Mundhra: Understood, sure and last thing, Sir, upgrade the number are reasonably good and I think you have also mentioned in your opening remarks that is very encouraging just to understand where are the upgrades coming from, is there any trend because this is clearly surprising, so any thoughts there, thank you?

P N Vasudevan: If you see the upgrade is at the highest level, it has never been so in the last four to five quarters. Upgrade happened through collections and I think that is a significant event that we are seeing here and the reason largely is because these customers who slipped into NPA during the month of April or May are not really proper NPA profile of a customer, they are actually X bucket probably in February, March, etc., and you know they must have slipped into NPA during the lock down period and at the earliest opportunity when they started earning money, they must have been in a position to payback, so our effort on collection has actually yielded a much better result and they have been able to come back and pay it. So I think the quality of the NPA account is what is different to what it traditionally is, these customers are in NPA are not necessarily the typical NPA profile borrowers.

Jai Mundhra: That probably may prove that the cash flow issue is temporary and may be as and when they get opportunity to earn and pay, they would do so, right?

P N Vasudevan: That is right.

Jai Mundhra: Thank you, Sir and all the best.

Moderator: Thank you very much. The next question is from the line of Abhishek Murarka from HSBC Securities. Please go ahead.

Abhishek Murarka: Good morning, Vasu and Team. Sir, just a few question, one regarding restructuring, so I just wanted to re-confirm, I think you said that there is a Rs. 1,400 Crores to Rs. 1,700 Crores restructuring pipeline and we have already restructured about Rs. 1,328 Crores, so this an addition or taking the existing restructuring into account as well?

P N Vasudevan: See, we have already restructured about Rs. 900 Crs for the current year, so if you to remove that Rs. 900 Crs from this Rs. 1,400 to Rs. 1,700 of indicated figure you have to remove this 900, the balance, which is about Rs. 500 to Rs. 800, that is what could get restructured over the next three to four months.

Abhishek Murarka: Okay, understood and in the restructured loan, can you share the mix of which segment has more restructuring, just trying to figure that out and also if any NPAs had been restructured or is it just standard account as I think it was mentioned earlier?

Dheeraj Mohan: Slide 5 has exactly the details you have asked for, product segment wise and how much of NPA, broadly, Rs. 61 Crores of NPA has got restructured and Rs. 400 Crores have been done in Q1 in July we have mentioned Rs. 435, just look at slide 5.

Abhishek Murarka: Sure, my second question is on MFI, now Vasu as per your feeling about MFI throughout after demonetization is a sort of showing up now and you have been able to you know escape most of the impact right now versus yours, but now from the 18% to 19% levels are you going to look to maintain this mix or is it going to come off further, what is the strategy?

P N Vasudevan: See, we had earlier also mentioned I mean about 4 years back also we had mentioned that our comfort level will be around 15% for the micro finance portfolio as a contributing factor weightage for the overall book and our comfort remains at that similar level even now, so I think on a going forward basis also we should see micro finance touching around the 15% level and then it should steady up from there because you see micro finance is a good product, under normal circumstance it is a pretty comfortable product for both the lender and borrower, it is only under extraordinary times like what is happening now or what happened in demonetization period, etc., it goes into a heavy kind of downswing, but otherwise it is a good product, but it has this way you know the extreme, it has this volatility associated with it and as a bank, you know we do not want to be very volatile bank in terms of our asset quality on and off or so and that is 4 to 5 years back itself, I mean not 4 or 5 years, in 2011, we started our journey of diversifying and that journey has been continuing and in 2016-2017 we did makes statements of where our comfort will be in terms of percentage contribution of different products and our comfort remains at the same level even now, so we should still try and get it down to around the 15% level and then thereafter our effort will be to try and hold it at that level.

Abhishek Murarka: Perfect and on credit cost, what is your target for this year?

Dheeraj Mohan: Abhishek, going with what numbers we have put, we are hoping to arrest it within 2.5%, but like as Rohit said, July has been good, hopefully all of that will give us some comfort and lastly I think universal disclaimer is, this is not taking into account wave 3.

Abhishek Murarka: Sure and just finally, any discussion on promoter lock in as per SEBI any discussion what may happen there or could there be a wavier?

Dheeraj Mohan: Not yet, the scheme is getting put to SEBI and then we will have a discussion and we are hoping SEBI looks at it favorably, a discussion paper out by SEBI of reducing this 3 year to 1 year, and we understand that SEBI has already taken feedback from the market in June, so we will try to use that as a reference point, but honestly discussions have not started yet.

Abhishek Murarka: Perfect. Thank you so much and all the best for the coming quarter. Thank you.

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

Renish Hareshbhai: Hi Vasu Sir, and congrats on great set of numbers. Sir, just two questions, one is on this restructuring piece, so what is the standard restructuring benefits we are giving either in terms of blanket moratorium of two years or it is only on principle or what is the tenure if you can give some colour on the restructuring tools would be?

Rohit Phadke: So, the RBI guidelines is that when you restructure you can extend the tenure by 24 months that is outer limit, so we are talking to the customer and extending the tenure as per his requirements, some customers do feel that currently the cash flow is slightly weaker, so they would like a moratorium of say one month or two months, so we are giving them that moratorium, but everything is limited to the extent of 24 months. In addition, any customers, we have not done for the entire 24 months, in some cases it is 6 months, in some cases it is 18 months, in some cases it is 12 months, so it depends on the requirement of the customer.

Renish Hareshbhai: Got it and this moratorium is only on principle or it is the complete moratorium?

Rohit Phadke: No, it is on the principal; interest he has to anyway pay.

Renish Hareshbhai: And Sir, any colour on this let us say this restructuring pools collection in June-July, if can give some numbers around it?

Rohit Phadke: See collections of RSL pool is too early to talk about. I mean maybe 3 to 6 months down the line we will be able to talk about trends in RSL collection.

Renish Hareshbhai: Got it and Sir, just last question on this MSE segment, so now the strategy has been you know we are moving to be more formal segment sort of customers and that is what it reflects in the ticket size as well, but now when we look at the GNPL at 6% in Q1, which is a sharp rise with having a coverage of only 19%, so I am just curious to know what went wrong suddenly under COVID 2.0, wherein the customer profile it suggests would be much better than the segment so just if you can throw some light on it, Sir?

Ram Subramanian: This is Ram here, the first thing is I think the 6% is as of June and the figure, which has been indicated in terms of that restructuring has not been included as part of the 6%. I think that is one thing I thought I will just tell you, then the second thing is, you know this is a segment as Vasu said in the initial remarks, basically they are trader profile, manufacturing and services pan India and I think they have gone through some rough weather during the COVID 2, but having said it if you look at it, the collection efficiency also we are able to see that it is moving up and we feel that out of this 6%, the restructuring will be approximately around 50% and the remaining we will be able to collect it during the current year predominantly, and one key aspect, which I want to bring to your attention is that the entire thing is fully secure and when I say it is fully secured predominantly by SORP that is self occupied residential property and this segment is generally very, very conscious about the property and the house, which they live in, so they normally do not sacrifice it so easily, so that is the reason we are very confident, and I do not think there will be any major impact on an account of this.

Renish Hareshbhai: Got it, so this 3% incremental restructuring would be part of the estimated number on the total pool, which you are saying right now, right?

Ram Subramanian: You are right.

Renish Hareshbhai: The way we have seen this, this Rs. 60 Crores kind of upgradation from the NPA pool might we see the similar kind in the next quarter as well and that should be predominantly from the MSE segment?

Ram Subramanian: Yes.

Renish Hareshbhai: Thank you. That is all from my side.

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

Dhaval Gada: Thanks for the opportunity and the disclosures are really appreciated. I had three questions, first is on the restructuring just be clear including restructuring 1.0 and 2.0, the maximum number outer limit that we are looking at is Rs. 2,130 Crores, which would be approximately 12% of the book is that correct understanding?

Dheeraj Mohan: Yes, you are right.

Dhaval Gada: Then the second part is just could you update on the ECLGS and also on the slippage during the quarter, how they were within segments, if you could give broad colour or some number around that, that would be useful and the final question was, I mean Vasu initially talked about applying for the universal bank licence at the end of fifth year, so just in terms of timeline from now to let us say sometime middle to end of next year, how should we think about the various process of the merger as well as the application, so if you would just highlight the key points within that, so that would be useful in this clarity, those are three points, thanks.

P N Vasudevan: In terms of ECLGS we have not done anything under that, so that does not apply to us so that takes care of your first question.

In terms of the second question basically you are talking of the merger scheme and the universal bank application and all that, they are independent, the merger scheme will take about a year's time for various approvals to come hopefully, so that is an independent process.

As far as the universal bank licence is concerned, as per RBI guidelines we are permitted to apply to RBI for converting into universal bank after completing five years of operation, as you know we will complete our 5 years of operation by September 5, 2021, so post that we will be taking up this point at the board and the board will have to deliberate on that and if the board approves then we should be applying to RBI and if you want to know what will be the timeline that RBI may take actually we have really no idea because it has not happened so far, there has been president so far, so we might be one of the first to apply for that, so we really do not know what is the process that we have to go through and what is the process that RBI will have to go through, we really do not know, all this clarity will emerge I am sure over a period of time, but anyway once board approves then we will be applying from the banks.

Dhaval Gada: Understood. Thank you and all the best.

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

Bhavik Dave: Good morning, Sir. My first question, one is on the restructuring front when you have around Rs. 2,000 Crores odd of restructuring how does this take place like when does this restructuring become standard, how does that work as per your guidelines and second question is if you see your loan book, the last four quarters before the second wave hit us, in the last year we disbursed somewhere around Rs. 7,000 to Rs. 8,000 Crores odd, how is the performance of the book on the 7000 t0 8000 Crores that we disbursed in FY2021 versus the historical book that we have out of the Rs. 17,000 Crores, so is that two asset quality question and I have one more question that I will followup?

Sridharan N: The first question regarding the upgrading, when 20% of the amount is collected in the first year and the remaining 10% in the second year know it will be upgraded to standard.

Bhavik Dave: Sure and the second question?

Rohit Phadke: In the portfolio that is generated in FY2021 as compared to rest of the portfolio, we do not see any different in the trends in their behavior, I mean it is the same thing that we have seen earlier, we do not see any different trends.

Bhavik Dave: So, the bounces or the collection efficiency in your portfolio is also very similar to what we have seen previously because the older portfolio will have different challenges because they were not aware of the COVID scenario and disbursement underwriting you have a different versus Rs. 7,000 Crores to Rs. 8,000 Crores that lend last year and the customers were more aware of the situation before borrowing right, so from that perspective?

Rohit Phadke: If I have to give you a deeper insight of what we learned from the field, see customers in wave 1 did not really understand the impact of lock down, they went through a lock down, now during the second wave, all customers have understood one thing and that is you know when a lock down occurs we really never know how much time it will take for things to open up, so conserve cash, so we have had a lot of customers telling us, I have the money, but I cannot pay you, I will pay you once the lock down opens up so that is an insight from the field that we have received which I can share with you.

Bhavik Dave: Understood and the last questions is on the liability side, very interesting the tie-ups that you turns to you and other we see 5 lakhs of customers that you are acquiring digitally almost 40% to 45% is coming via the newer partnerships, so just wanted to understand how is the custom profile like what are the average balances may be the average age, any geographical mix, is it some specific states, any products like are these customers better in the sense that we were able to cross sell them additional product as soon as they come on board because they are more savvy any insight on this would be really helpful, thank you?

Murali Vaidyanathan: Thank you, Murali here. See, there are two sides to it, one is Niyo side that is a fintech partner, another is Selfie side, which is our own manufacture and our distributed product. Let me give you the Niyo insight first; the focus is on demography, as I said geography is a byproduct in a digital world, so the target audience is anything between predominantly the account comes in between 20 to 40 years of age, which means if you bucket it these are all the new entrance into the job market, these are the students and these are the mid management people who are working in the organization that is up to 40.

On Selfie side, our target segment starts at 35, so the entire demography based approach is what we are doing with one side, Niyo Equitas and another side is Selfie Equitas, but please note there is nothing called Niyo as a product, the underlying product in either side is called Equitas savings account, so that is our core product, the second understanding is predominantly the product comes from metro and urban locations, which means India contributes to 80% and Bharat side gives it to 20%, in terms of balances there are two buckets, one is when you open any Equitas digital account through any Fintech partner you do half KVC account, once you go through the physical or a video becomes a full KVC account, the half KVC account where we manufacture and sell, the average balances is close to Rs. 6,500 to Rs. 7,000 and when we go and do a full KVC, when we go and convert into a savings account, the balance on our own manufactured Selfie side shoots up to Rs. 28,000 and NEO is at Rs. 16,000 to Rs. 17,000, please understand what are we doing with Niyo; what are we doing for their investment customer, we are leveraging our savings account platform, so they also do asset allocations with the lag of 15 days, 20 days, so it compliments for their asset allocation basis good savings account coming in and for us to, so it is a demography led models, both the side India favor and ATS building towards the normal SA balance, the normal SA balance which you open is a Rs. 78,000, you would have seen in slide it is a long short, it is 1x of what we have at the phygital mode.

Bhavik Dave: Understood and when do we open these accounts via the digital platforms, I know it is too early, but has the graduation from like the lower ticket size toward our Rs. 78,000 being good enough and what are the products that we are able to cross sell to these customers, are they like here to sell life insurance, mutual fund or an asset product, which is like how does curve take place?

Murali Vaidyanathan: See, presently it is three quarters for Selfie and one quarter for Niyo, let us be very clear after the account open for the first time, so what we are focusing is cross selling our own existing range of products in form RD or FD, second thing is we have now created a products for insurance to start with personal accident cover and health because that is far more easier than selling a life insurance, so we have a certain bucket product 99, 199, 299 and then we push it into it, but the reality part of it any good customer who is coming above the salary bucket of 10 lakhs, he migrants to a Rs. 75,000 plus or 1 lakh plus only if the physical meeting happens through a person, so our effort is to meet, so what here also we have done is, based on demography and salary we have allocated our Selfie customers to the branches where they go and do the full conversion where we could cross sell three products, FD, RD or FD, SIP, and protection. In Niyo, we are just starting the journey because as I said it is only a three month old stuff, we want to start with protection as route, yes, loans are made and we are finding our own medium on how to get into consumer space through that.

Bhavik Dave: Got it, this is very helpful. Thank you so much and all the best.

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

Nidhesh Jain: Thanks for the opportunity. Firstly, can you share SMA 1, SMA 2 numbers under this quarter versus what the position was by the end of March 2021?

Dheeraj Mohan: No, Nidhesh we do not have it now, we will see how we can incorporate in the future presentations.

Nidhesh Jain: Sure and it is quite surprising to see that the asset quality in a small business loans has performed extremely well even better than the MSME loan, despite that customer I believe would be more impacted by lock downs, so what is the reason for that and what are the insights that the customers has behaved better than the other segments that we are putting in?

Rohit Phadke: In the small business loans 60% to 70% of our customers would be in the essential service so that does you know give them a better and immediate cash flow that is the reason why small business loans and that is the trend that we have seen even last time also.

Nidhesh Jain: Sure and lastly on the liability side, what would be the interest rate strategy going forward we have seen double strong traction, so do we plan to lower our start rate going forward or till what time we will continue with the 7% strategy?

Murali Vaidyanathan: The important part is it is not 7%, 7% is a pendent in a necklace what we have added peripheral is very critical, in terms of cost of fund we are anyway bringing it down month-on-month by 4 bps so if you see what is the biggest measurement is a pool of 1 lakh, the pool of 1 lakh today has grown 2x in last 9 months, which means the aspirational value towards building 7% is increasing, so just to give you some rough thought pool of 1 lakh, which used to be say X, we will take which used to be Rs. 300 Crores to Rs. 350 Crores is today is 800 Crores in the bucket, so people are moving towards it and 7% is getting us at this point of time HNI and program centric customers and it is well within the limits what we want to, so at this point of time, we will sustain the rate and get the good customers in and we will keep growing with them through cross sell opportunity. Cross sell opportunity in the 7% bucket today if you see pool of insurance number, last year we covered close to say a month on month basis if you see 22,000 customers was the first quarter, this quarter we already out beaten that, in terms of number of customers who has consumed protection plan from us so it is giving lot of cross sell opportunity, engagement opportunity, family opportunity and it also compliments our cost of funds, so it is a win win situation that is why NR segment, elite segment and wing segment is doing the trajectory.

Nidhesh Jain: Sure, Sir. Thank you and that is it from my side.

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

Amit Premchandani: Yes, I have a question on the scheme of arrangements, what will be the tax implications for the two stakeholders, the Equitas holding shareholders and Equitas small finance and Holdco?

Sridharan N: As per income tax act, the merger happens; there is no tax impact for the shareholders.

Amit Premchandani: Even the retail shareholders?

Sridharan N: Yes, every shareholders and for the company there is no tax.

Amit Premchandani: So, it is completely zero tax standard?

Sridharan N: Yes.

Amit Premchandani: Thank you, Sir.

Moderator: Thank you very much. The next question is from the line of Mayank from Franklin Templeton. Please go ahead.

Megan: Sir, thank you so much for taking my question. My first question was relatively large pool of restructured loans on the guidance on that compared to what we are hearing from other finances, so I just wanted to understand whom are we really giving these restructuring, are these customers that in the last three months have not been able to pay us or have we similar to what we did in the first COVID wave, taken a relatively lenient approach in giving moratorium in this sort of environments, I am just trying to understand that how did you decide whom to give the restructuring to and whom not to give it to?

Rohit Phadke: So, you know this restructuring and decision of restructuring is a very granular process, we have to go and talk to each customer and depending on his needs we would prefer a customer not restructure his loan and pay us regularly all the installments, which are due, but suppose the customer has some kind of cash flow problems, he intends to you know extended his tenner, lower his EMI, or need some more time to get back then we have offered him restructuring, as you know I just told you that Rs. 60 Crores is the NPA pool, otherwise rest of the customer are non-NPA, but see as per RBI the customer has to be standard as of March 31, 2021, which means he is a paying customer, so he is not somebody who is an intentional defaulter or does not want to pay, those customers who were regular as of March 31, 2021, but because of the lock down in April, May and June, they have faced some difficulties, those are the customers whom we have talked to and then we have decided upon restructuring their loans, which is mutual, the customer approaches and we do agree, it is not something which we decided to enforce upon because that will not work, it is a very granular exercise, so it is absolutely customer specific depending on the needs of that customer.

Mayank: Just a follow-up, so what I am getting to understand is that the environment is coming back to normal fairly quickly and your upgradation numbers for this quarter was also sort of reflective and the ability of this customer segment to bounce back fairly quickly, so in such a scenario I am just trying to understand that you know hardly maybe these customers just needed one to two months of payment relief and they would have been normal paying customers before that, so what are the need to get them longer moratorium that you sort of answered previously?

Rohit Phadke: See, you have to understand that these customers have gone through COVID wave 1, a lot of customers at that point in time, they only took the moratorium, but they did not do any restructuring at all. Many customers at that point in time did not even take moratorium, so now when they have got hit in wave 2, I mean the impact is a cumulative impact of wave 1 and wave 2, and that is reason why a lot of customers do feel and when you know there is always a fear of wave 3, so customers have this whole issue of restructuring in the customers mind is a combination of circumstances and virtual fear, so that is the best thing that I can tell you as to why these customers have come forward for restructuring.

Mayank: Perfect, just one last question, on growth I just wanted to get that, how are you thinking about growth recovery in near to medium term, are we likely to stay conservative given the risks of third wave or are you sort of looking to push up growth from here?

P N Vasudevan: I think people like you have been following our portfolios for quite a few years now, I am sure that you understand that the segment that we deal with as we have mentioned earlier, if I talk of vehicle finance and small business loans almost like in vehicle finance about 80% of our borrowers are first time borrowers and in small business loan if you just remove the gold loan part of it then more than 90% are the first time borrowers, so that is the profile of our borrowers and we have a very strong relation built with them because we take nearly about, in vehicles it takes about a TAT of around maybe 4 to 5 days and small business loan we actually take a turnaround time of more than about 10 days to 15 days time because we have to spend so much of time sitting with the customer to try and understand his cash flow and all that and that really ends up building a very strong relationship with the customer.

Second thing is that in the entire small business loan the sourcing is done through the micro finance borrowers and through the community that is why even though we do a fairly large amount of small business loans, we have no DSAs at all, no middleman at all, the entire thing is done directly and we do not even have to go out and source, you know the business comes by itself because in a low income community or in a village or in a area, you know we have ended up giving certain loans and the word of mouth spreads and the rest of the people just kind of come and start making enquiries and in all the places where we operate because of the fact that we are a micro finance company also we have anywhere between 20% to 30% of that local population would be our clients, so we have a very strong relationship at the ground level in that entire community so that is how the whole, the strength of this model is built on that, so we are very comfortable, I mean last year if you remember the same kind of question used to be asked of us you know in April we started it as much as 90% by value, 98% by number of clients were under moratorium in the month of April, the first three months of a moratorium, 98% by number and 90% by value and under moratorium and people were quite obviously eyebrows went up and there was a feeling whether most of them may not come back at all and we never really kind of went into overdrive on collections so we said that we know our clients and we have no intention or no desire to put undue pressure on this borrowers at that time when they are actually at their most sensitive situation and we said that we will work with them and they will come back and they will always come back and then those question that you asked now was also asked last time that is that you know when a borrower have some money and other financiers go and they are able to somehow squeeze that money out of the customer, the customer ends up paying to those financiers who squeeze them the harder and those financiers would not squeeze him the harder they end up not getting the money, do you feel that as a challenge for your work was another question that used to be asked of us last year and our response then and response now, and I am hoping that the response to the future also will continue to remain that we are very close to our clients, we know our clients and we have no desire or no intent of squeezing them and this is not a three months gain, this is no a six months gain, and this is an eternity game and we have to be there in that community, we have to know each other where to have a respect for each other, which will build a long-term credible reputation for the bank in every community that we operate in, so we have no desire to go and squeeze, if someone else is going and squeezing the borrower and taking some money out, we wish them all the best, we have no intention of following that kind of practice and we would rather just sit with them, figure out what is happening at their end and if they want restructuring, we will be happy to offer it, if they do not want no problems, if they want for a six month extension not a two years well and good whatever it is that they really need is something that we will be doing and so we will take a very you know what I would say relationship based decision in this and not a very short-term decision that how do you just squeeze three EMI from the client and at the end of three months, if my relation over with that person as well as with that community so I think that has been our approach last year, this year and hopefully into the future also and so we are very comfortable with our borrowers and they have proved that from 98% and 90% moratorium in April, at the end of March, our X bucket collection was 99% and our collection efficiencies were back to over 100% and our NPA, which was pre-COVID 2.7% or 2.8%, it used to be our standard level of NPA had just moved to about 3.6% and if wave 2 had not happened probably that would have come down in June, but anyway wave 2 has happened and there has been again an increase in NPA, which I am sure over time will start coming back, so I think we are very comfortable with our clients and we should be continuing to support them and take the same pragmatic relationship based approach that we have taken in the past. I hope that answers your questions.

Mayank: Yes, Sir, absolutely. Thank you for the detailed response and it is a very comfortable response.

P N Vasudevan: But, I took a little longer time, I know to response to this because I think this is the most crucial differentiator, this is the essence of relationship itself, how do you run your bank, what is the profile of your bank, what is your DNA, what is your characteristic of the bank, I think that is the most important thing, everything else is actually secondary, you know you have increase in NPA, you have a better collection this month, we have a stress next month I think that is all part of the game, it is all temporary it keeps coming and going, but I think the DNA are the most important thing and I think that is what we should be really clear about all the time.

Mayank: Thank you, Sir, agreed.

Moderator: Thank you. The next question is from the line of Amit Nanavati from Nomura Securities. Please go ahead.

Amit Nanavati: Just I want some clarity on the potential restructured book that we are likely to see in the second quarter so where would the incremental restructuring come from, I have the segment in July, but for the incremental Rs. 600 to Rs. 700 Crores of restructuring that we are talking about?

Rohit Phadke: So, about Rs. 200 Crores will come from vehicle finance, about Rs. 100 Crores will come from small business loan, and MSME will be about Rs. 40 Crores.

Amit Nanavati: Yes, and secondly if you can just provide some colour on the restructured book the overall restructuring 2.0, what was the bucket that is for restructuring if you can just provide some bottom mix where there in last quarter it was 60 to 90 days, part paying customers, or 40 to 60 days that will be helpful?

Rohit Phadke: So, as I said earlier it is too early to talk about RSL portfolio as of now, we do not even have the data as of now.

Amit Nanavati: Not for now, for March where the customers SMA 1, 2 in March may be a little bit time back but probably be in SMA 1 or 2 right?

Rohit Phadke: So most of them would be in 30 to 60 or 1 to 30 days and as we have said earlier the NPA was only Rs. 60 Crores, rest would have be having 1 to 30 and 30 to 60.

Amit Nanavati: Understood. That is it from my side. Thank you.

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

Deepak Poddar: Thank you very much, Sir. Sir, I just wanted to understand you mentioned that by September, October, we should be coming back to normal in terms of asset quality and collection efficiency, so does that mean even the credit costs we should see a normalized third quarter, fourth quarter in terms of maybe 1% to 1.5%?

Dheeraj Mohan: Yes, the credit cost should normalize hopefully from third and fourth quarter that is the intention and also from a provisioning, we would ideally want that also to happen.

Deepak Poddar: Fair enough, understood and when any kind of thought process that you can share on the cost to income side not in the near term, but maybe in the medium term side?

Dheeraj Mohan: If we did not have a wave 2, we were looking at bringing that down in about 18 months as we said earlier to close to about 50% that was the trajectory, now with income going a little slow in the last 12 months odd, I think we may have to push that a bit or do a significant catch up, but milestones for us is to reach 55% and then 50%, we will have to factor in the impact of wave 1 and wave 2.

Deepak Poddar: So, if I have to assume that wave 3 does not that precedence 55% by FY2023 would be that is about 18 to 20 months would be a fair kind of timeline?

Dheeraj Mohan: Yes, absolutely, good to see your optimism on wave 3, so I think that is a more difficult thing to predict than our cost to income ratio.

Deepak Poddar: I think that is about it from my side. Thank you very much.

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

Abhijeet: Thank you. First question is in terms of collections in a normal environment and there is no COVID, what set of collections across different products excluding MFI happened on a cash basis I think there is no ECS or NACH mandate?

Dheeraj Mohan: So, most of the loans are from a micro finance, everything actually has a NACH mandate, but as you know the segment has cheque bounces and some of those EMI bounce, we re-present and if that also fails then we have to go and do field collection, so across products and limited to small business loans and vehicle finance it is roughly about 30% is cash collection.

Abhijeet: And just a follow up on the vehicle side, you mentioned that the cost passed through is only about 25%, the diesel cost pass through, so I want to understand are the vehicle owners still able to service their EMI as the freight demand and the cash flows are still good enough for them to service that?

Rohit Phadke: See, as of now the freight demand seems to be increasing, and that is you know you combine that with increasing collection efficiencies, so I think the operator also probably feels that with increasing demand they will be able to pass on the full diesel increase costs in the freight rates that is the expectation, also you see if H2 is actually all the seasonal stuff start from August and hence you know the seasonal stuff, the sales also higher, demand is also higher, so that is the expectation that the operator also has, as of now we feel that with increasing collection efficiency this 30% being passed on in freight cost his optimism about increasing freight rates seem to be higher in the field.

Abhijeet: And one follow is, is the pain this time around as well more on the used side?

Rohit Phadke: Yes, I mean in general you know the auto industry seems to be very badly impacted as far as other that is what research reports are saying and at the field level now that the recovery has started, we feel optimistic because one difference this time if you see earlier wave the COVID had not hit the rural area, so now you know this time in wave 2, the rural areas were also hit, so we do see a lot of pain on the used side too.

P N Vasudevan: Sure. Okay, I think we are going to close with that and just before we close as the concluding remark, I would like to say a big thanks to all of you, not just for attending this call, but continuing to support the bank in its quest to create a very differentiated bank, which will continue to focus very largely on delivering high professional performance, and at the same time being highly socially conscious and ensuring that we marry that together in a very balanced manner, so thank you so much and look forward to your continued support during these tough times and hopefully during better times going forward. Thank you so much.

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