“Arman Financial Services
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Jignesh Shial: Good evening everyone. On behalf of Emkay Global, I would like to welcome the management of Arman Financial. I shall now hand over the call to Aalok Patel for his opening remarks. Over to you Aalok.

Aalok Patel: Thank you Jignesh and good evening to everyone as always and thank you for taking the time out of your schedule to join us for this call to discuss our financial performance of the Q1 of FY2022. We have issued a detailed press release and an investor presentation for the quarter and hope all of you have had a chance to review it.

Before I start with the usual agenda about the business during the last quarter and the financial performance, I think it is important to mention how challenging the past quarter was as I am sure most of you will be aware. The number and the severity of the COVID infections, especially in the rural areas this time was very high and so were the fatalities. It is with great sadness I have the duty to report that we have lost five members of our team so far due to COVID of which four passed away during the second wave. Overall confirmed infections in our staff were more than 140 people or almost 8% of our staff plus uncounted number of family members and unconfirmed cases. The death of any team member is obviously a gut - wrenching tragedy, however many of our team members who were taken during the prime of their youth and so were our customers. I know most of the people listening to this call would have had close friends and family that would have been infected, hospitalized or in the worst case passed away.

Q1 of FY2020 last year was mostly about the lockdowns and the loss of income. The second wave really hit home for most of us. Before we get into the numbers, just imagine for a minute what Q1 of FY2022 would have been like for an average microfinance customers. No resources, minimal knowledge, lack of infrastructure, lack of access to medical care, loss of income and the list can go on and on. Many of you have locked on today to list to me talk about repayment rates and NPA's and other factors, which is completely fair. However, I ask you to keep what I said in the back of your head when you contemplate and hopefully sympathize with rural India and what a tough situation, they have had to go through in the past 15 to 18 months. Even during the worst month of the crisis, the resilience of our customers was show cased when three quarters of our customers chose to pay their EMIs when nobody would have blamed them if they asked for a repayment holiday. The disruption caused by COVID second wave lasted for around eight weeks. During this time, our collection efficiency was impacted on two grounds. One it was difficult for our executives to reach the customers due to the lockdowns and second due to the financial strain that the customers were going through on the back of closures of their business and in some cases impact on theirs or their family's health. Moreover, we cautiously kept the disbursements low and mostly serviced our renewal clients if they were accessible. However, the situation on the ground seems to have improved and somewhat normalized now with unlocking in most of the geographies, which is also getting reflected in the bounce back in the collections and the disbursements.

I will now give a brief overview of our financial performance for the Q1 and post that touch upon liquidity, disbursements and collections in more details. Coming to the brief overview of our financial performance for the quarter, at the end of the Q4 our consolidated loan books stands at Rs.785 Crores lower by 5% year-on-year as disbursements fluctuated during the year due to the ongoing COVID crisis especially during the Q1 FY22 due to the COVID second wave. As far as the segmental AUM our microfinance AUMs stood at Rs.631 Crores marginally higher by 4% year-on-year. Our MSME AUMs stood at Rs.113 Crores while our two wheelers stand at Rs.41 Crores. The two - wheeler division has seen the sharpest decline in AUM given the challenging economic environment and the lack of sales during the year along with a healthy repayment rate. Gross total income during the quarter stood at Rs.60 Crores at consolidated level while microfinance increased by 12% Y-o-Y to Rs.37 Crores due to higher average AUM. Similarly, our net total income during the quarter increased by 10% year-on-year at Rs.30 Crores aided by lower cost of funds. Including the additional provisions recognized during the Q1 cumulative total provisions at the end of Q1 stood at almost Rs.56 Crores at a consolidated level covering approximately 7.1% of the total book AUM. At the standalone level cumulative total provisions stood at Rs.20 Crores covering 12.6% of the total AUM while in microfinance cumulative provision stood at Rs.36 Crores covering 5.8% of the total AUM. Our net profits stood at Rs.3.6 Crores lower mostly due to the higher provisioning and write off cost. Consolidated GNPS stood at 5.7%, NNPA stood at 1.4% for June 2021. The company provided repayment holiday between one and three months to March 2021 level one standard customer in the microfinance loan book. These customer’s tenures were pushed forward between one and three months. Approximately 70,000 customers were eligible for this scheme with about 40% of them with one EMI deferred forward and 30% each with two EMIs or three EMI deferred forward respectively. There were no repayment holidays provided for MSME or two - wheeler customers. The disbursement and collections which were hedging towards normalcy in Q4 of FY2021 were again disrupted due to the second wave. Disbursements during Q1 FY2022 stood at Rs.122 Crores. This was lower than our projections by at least Rs.100 Crores however given the situation on the ground and difficulty in even accessing the customers much less evaluating them. The overall disbursements exceeded expectations. The total MMSE and two - wheeler disbursements in Q1 were Rs.16 Crores and Rs.7 Crores respectively. While microfinance disbursements stood at Rs.99 Crores. Our focus was to concentrate on the renewal loans of existing customers.

Liquidity wise the company has a healthy liquidity position with more than Rs.100 Crores in cash and undrawn CC limits. ALM continues to remain positive and the company continues to have access to new sources of funds. Additionally, the company has Rs.55 Crores of undrawn sanctions from existing lenders. The company has repaid all of its debt obligations that were due in Q1 FY2022. The debt equity ratio stood at 3.64x and the shareholders equity stood at about Rs.190 Crores as on 30 June, 2021.

Coming to collections consolidated collection efficiency that saw a normalizing trend during the Q4 of FY2021 again saw dip in the months of April and May to 88% and 78% respectively due to the reasons discussed above. The collection efficiency somewhat improved and bounced back during the month of June and July to 89% and 90% respectively. Collection efficiency for two wheelers and MSME portfolio remains robust at 90% and 93% respectively in the month of June and 94% and 95% respectively in the month of July. The sharp increase in the collection efficiency in the microfinance segment is encouraging. The repayment rates reached 88% in June from a dip of 75% in May 2021. As I had mentioned previously the segment that we service is very resilient and has a tendency to bounce back quickly. I am happy to report that the post COVID disbursements have bounced back to 99% plus repayments rates as of July. To sum up, I would like to say that we are cautiously optimistic, satisfied with how we have handled the past 18 months. While we hope for the best, we are always prepared for the worst. Barring the really bad third wave it is very likely that the worst is behind us. The future looks bright with the new RBI white paper that deregulates the NBFC and MFIs and puts them on a level playing field with other practitioners. If you have not done so already, I would urge you to go through it if you follow the MFI space closely.

Finally as always, I would like to conclude by expressing my deep gratitude to all of our stake holders for their continued support during these very difficult times and a special note of appreciation to the company's field staff who juggled between infection risk and their duties. Now I would request the operator to open the floor for the Q&A session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. There are two questions Aalok. The first is on our collection on slide the numbers that we are given collection efficiency so this would not include the plans were given a holiday right? We had some?

Aalok Patel: These would include so we gave apples to apples comparison. I am sorry we should have mention that with a asterisk somewhere so the repayment rate ignores the repayment holidays so it would basically you have to read it has no repayment holiday was given.

Anand Bhavnani: Secondly the provision wise cumulative provisions for Arman are 5.8 whereas for standalone it is 12.6? Now if I look at the provision cover and collection efficiencies? Collection efficiencies actually is a bit inferior for microfinance whereas it is relatively better for MSME and two-wheeler so should not we have more provision for the microfinance?

Aalok Patel: I think last year we took as many provisions as we could in all the divisions. Overall, the microfinance AUM has increased quite a bit in Q3 and Q4 of last year while there was a little bit of a decline in the MMSE portfolio during Q1 so that is one reason. The other reason also is that we have done a lot of write offs also in the microfinance so I think you will have to take both the provisions and the write off numbers and kind of stabilize it with the overall movement of the portfolio as well. Overall, we have taken as much as we can pretty much just in anticipation of COVID whatever loses that may come.

Anand Bhavnani: Like we do not see any special additional provision in the rest of the quarters going forward?

Aalok Patel: It is unlikely we will need any other provisioning going forward as far as Arman because as far as the MSME and the two-wheeler portfolio. Microfinance it remains to be seen so we will need a little bit more time. May be another quarters worth of provision might be required.

Anand Bhavnani: Thank you Aalok. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Amit Mantri from 2 Point 2 Capital. Please go ahead.

Amit Mantri: First of all my condolences for the loss of your teammates. I am sure the company is doing its best to support the families through this tough period?

Aalok Patel: It was a rough time for everybody I think personally and business wise so at least we are a bit far away from it now. Hopefully it does not come back as bad during the third way if it does come.

Amit Mantri: I hope so it does not come. Let us pray for that. So, in terms of the business so which geographies were impacted? Was it the same geographies as earlier with Maharashtra lagging behind?

Aalok Patel: No, right now if I have to rank as far as repayment rates goes the first one would be UP followed by Gujarat. Little bit reversal there. Earlier it was Gujarat the number one spot. Now it is Haryana number one. So it would be Haryana, UP, Gujarat, followed by Rajasthan, MP and Maharashtra at last phase. I mean there are some stages so I think the biggest hits we took was in Rajasthan and then in MP where Rajasthan was performing very well but I think they had a very stringent lockdown where we could not go and collect the money and the incomes and everything were disrupted so now it is coming a little bit back to normal and MP also saw a kind of a larger hit. Maharashtra dipped down but now it has gone back to what it was pretty much baring the few percentages.

Amit Mantri: In terms of the disbursement has that also been affected in July how much was it disbursement that we did in July?

Aalok Patel: July we did about Rs.75 Crores in microfinance. I believe Rs.10 more Crores in MSME and Rs.3.5 Crores in two-wheelers so very close. It picked up quite a bit. To give you an idea I think in March month microfinance was Rs.85 Crores if I remember correctly. MSME was about Rs.14 Crores and two-wheeler was I think it was around Rs.3 Crores.

Amit Mantri: Disbursement is also normalized it looks like?

Aalok Patel: Disbursement is yes I think that is picking up fine. It is just we are not concentrating on the repayment as far as the field is concerned. Otherwise, we can push it. There is plenty of demand in the market for funds.

Amit Mantri: This will continue to be the run rate of will you further increase it from here?

Aalok Patel: I think it will probably go up in August. There are a lot of holidays in August, but I think we are expecting to go between Rs.80 Crores and Rs.85 Crores in microfinance this month and about Rs.12 Crores to Rs.13 Crores in MMSE and two-wheeler we are expecting about Rs.4 Crores to Rs.4.5 Crores.

Amit Mantri: Your MSI yield has increased in this quarter so how has that happened was not least expected to come down due to decline in base rate to 8%?

Aalok Patel: I do not think the yield has increased but I think what you are seeing is if you are comparing with to the last quarter, I believe there were a lot of reversals because of write offs and interest reversals and overall, I think the average portfolio has increased.

Vivek Modi: Amit the last quarter that means the Q4 the average AUM was about Rs.590 Crores while the average AUM in Q1 has turned out to be about Rs.640 Crores.

Aalok Patel: There is always a timing difference also.

Vivek Modi: So that is there.

Aalok Patel: So, whatever we dispersed in February and March the first EMIs do not come due until April and May so there is always a little bit of a timing difference between the portfolio and if you are increasing or decreasing the disbursement by huge amount. There is a little bit of a lag interest between interest and the AUM.

Amit Mantri: What will be the bolding yield typically? Would it be 22% to 23% bolding yield?

Aalok Patel: What is bolding yield?

Amit Mantri: On form paper what is the yield?

Aalok Patel: It is about 22% plus 1% processing fee.

Vivek Modi: The new portfolio is as per that, but we continue to about 40%, which is 24 plus.

Amit Mantri: Got it. That is it. Thank you.

Moderator: Thank you. The next question is from the line of Urmi Jain from Frequent Investment. Please go ahead.

Urmi Jain: Thank you so much Sir for the opportunity. Sir how is the demand for two-wheeler loans right now and also how is the collection efficiency in August till now like how do you see the trend going ahead?

Aalok Patel: As far as the demand for two wheelers loans it is picking up. Personally, I am not an expert on two wheelers. I can have my other people do it but last month was about Rs.3.5 Crores which was the highest we have done since COVID 1.0 and this month I believe we are expecting to do about 800 vehicles. So that should take about Rs.4 Crores to Rs.5 Crores somewhere in Rs.5 Crores, so it is definitely picking up. I do not think it is nowhere close to what it was pre COVID, but the demand has started returning. As far as exact percentages you will have to excuse me. I do not have them with me but at least from our experience things are picking up.

Urmi Jain: If you could also throw some light on the on ground situation currently in all the three segments the MMSE, two-wheeler and the microfinance?

Aalok Patel: You had asked about the repayments so the month of August is obviously better than the month of July and July was better than June, so we are improving but it is not very large, so I think if you notice between the month of June and July there was about a couple of percentage difference. We are expecting something similar in the month of August, so I do not think that we are expecting to go to like March levels or anything like that in August. That will still take a couple of months, but that is an improvement at least by a couple of percentage points so far.

Urmi Jain: Thank you so much Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Balkrushna Vaghasia from Axanoun Investments. Please go ahead.

Balkrushna Vaghasia: Good evening Sir. In the last annual report and in the last couple of conference calls you mentioned about the collections, so you are trying to modify the collection mechanism, which has hybrid manual as well as digital portion so have you made any progress on that front?

Aalok Patel: Not a very lot of progress. I think what I would like to say is that we are future ready so in that sense our systems are in place. We have given unique QR codes to all of our customers. We have several tie-ups with all these merchants and different payments, but it seems that our customers still prefer largely speaking to pay via cash and I think it is going to be a slow bird so I do not think this is going to happen over a period of months or quarters. I think unless something very drastically changes on the ground level, I think it will still take a while. I do not know long but I guess long story short is we have not made much of a progress there.

Vivek Modi: Largely also the ecosystem is still cash in the rural India so if the ecosystem is cash driven, we really cannot expect our borrowers to go digital completely and we cannot directly chase them because the entire system needs to kind of move towards digitals are only pushing will not really help.

Aalok Patel: It must be convenient for them right. I think you can have all the mechanisms in place. You can do UPI, Paytm and Google pay and there are countless solutions today, but the fact of the matter is that it was exponentially easier to convert our disbursements into completely cashless because until the money was disbursed the power was all on this side. It was all on the company’s side. If you told the customers you will have to open a bank account to get a loan they will do it, but what typically happens is as soon as you disburse the money within one or two days the amount is withdrawn in cash by the customer. Now the power has shifted towards the customer when I need to collect the installments so that will be a lot harder to convert and see in the case of disbursement they only need to go to the bank once to withdraw the money. In the case of repayment, they need to go to the bank at least once a month or 24 times to deposit the money because frankly speaking all these mechanisms whether you talk about UPI or whatever platform there is to repay the money at the end of the day you need to have money in the bank account. Everything is connected to your bank account. So, I do not think it is going to shift until it becomes more convenient for them to keep their money in their bank versus keeping it in cash.

Balkrushna Vaghasia: My next question is related to the same matter. If you assume that okay over a period of time the digitization in the rural area will also increase so as the education level also increases so would that scenario threaten our business model because if we see as the digitization and access to technology increases in rural areas then in other more sophisticated players which have access to lower cost of funds they would be able to land in the rural area would that threaten in the long term to us in the long term?

Aalok Patel: No, I do not think so because I think if you look at MFIs we are very, very adaptable. If our customers are ready to shift their focus into a digital mode of payments I am ready to service them. In fact, today that would be preferable for me. Instead of having a collection team of 2,000 I can make do with probably half of that. It takes a lot of efforts to collect payment in cash mode so, I would be the happiest person to service my customer on a cashless mode. That is just one thing, which we will have to worry about is that high touch model. One of the reasons why the customers have a very good repayment rate barring stuff like COVID is what I feel is that high touch model where you are not a faceless cooperation. You are meeting with them at least once a month or twice a month so that might be one of the disadvantages but otherwise there are plenty of advantages. My operating cost will reduce. The customers interest rate can reduce so overall I think if the customers are ready, we will be ready. I do not see a threat coming externally.

Balkrushna Vaghasia: My last question is related to the collection efficiency of pre COVID and post COVID loan book? Do you have bifurcation on that front, or do you see any different in the collection efficiency of pre COVID loan book and post COVID loan book? When I say pre COVID I mean the loan book which originated before the first wave?

Aalok Patel: I do not have a bifurcation, but all I can say is that the loan that was originated post COVID that repayment rate went down to about 90% during the month of May. In June that went up to 98% and in July it is 99% plus so we are almost back to normal in that book.

Balkrushna Vaghasia: Alright thank you so much. Good luck.

Moderator: Thank you. The next question is from the line of Rajesh Kumar from Share Gaint. Please go ahead.

Rajesh Kumar: Good afternoon Sir and thank you for giving me opportunity to ask the questions. Pardon me for my ignorance if you have already answered this? I wanted to know like Sir do we see the mix changing between the MSME, macro finance and two wheelers or the longer run Sir?

Aalok Patel: Do we see what I am sorry.

Rajesh Kumar: The business mix changing between the various segments of MMSE?

Aalok Patel: So not in the short term but in the medium to long term yes. My opinion is that the customer have already starting to prefer or already starting to demand on the individual higher ticket and higher under writing kind of loans which is why we created the MMSE to begin with. I believe in the long run the individual loans which is what we are doing under MMSE will start having more weightage in the overall book. It might be a few years away at least two to three years away.

Rajesh Kumar: Okay Sir that is good Sir. Also wanted to check like we have seen a very good recovery in terms of collections so how do you see the trend going forward because till July there has been good recovery so August how has it has faired and what is your outlook in the next quarter Sir?

Aalok Patel: I would not call the recovery good per se. It has recovered well but the collection efficiency what had reached about 94% to 95% in March I was hoping by this time we would reach like 97% to 98% and may be 98% plus would be a good repayment rate. It would be kind of a pre COVID repayment rate and I think what I had said basically to everybody pre second wave was that we wanted to forget about COVID and just kind of move on from April 1, so unfortunately that did not happen and I would not say we are back to square one, but we definitely took a few steps forward and then took a couple of steps back so that has been a kind of the theme of this entire COVID to begin with. Q2 FY22 I think July and August have started well. September will be even better. I think by the end of Q3 we should be back to at last March 2021 levels assuming that there is a good season Deepavali season and stuff. So, it may take may be a quarter and a half roughly speaking.

Rajesh Kumar: Sir on your growth expectations so considering the COVID restrictions and all so like how you see the growth panning out in FY2022 and FY2023.

Aalok Patel: Frankly, I have been so busy with recovery. Of course, we have projections and everything in place. Earlier target was to reach somewhere around Rs.1,200 Crores. We will definitely cross Rs.1,000 Crores. I do not have a doubt that barring any kind of third wave of any kind other disruptions that is always going to be my disclaimer now, that is forward looking but I do not know. The AUM will have a healthy growth may be 10% to 15% to 20% easily. I do not think that will be a problem but do not hold me to it. Let us see how the next couple of months go.

Rajesh Kumar: Sir our provisions front so do you see the worst of provisioning to be behind us and now we should see better days ahead?

Aalok Patel: The worst itself has lost a lot of meaning. The moment we talk of worst I think we are surprised by the next new one, new worry. I think my answer is the same as I gave it to the previous gentleman that I think that there is probably more than sufficient provisions that the parent Arman level for MSME and two wheeler. I believe there is at least one more quarter of provisioning which will need for the micro side at least. I think that is my answer without getting into too many other details.

Rajesh Kumar: Okay Sir. Sir just a last followup question? On the rural front like the second wave has created more challenges compared to the first wave and your business model is very much tilted towards that side so hence wanted to see like your views? Do you see this set back to have any kind of permanent impact there or like slowly, slowly once the COVID situation get normalized is that they will get back to the same situation as earlier and any change in the strategy or the plans of the company to tackle any impact on rural due to like I mean per capita income or something which might be impacting the COVID to them because this time the disruption is more towards the unorganized sector and the lower income group side so any change in strategy and how the company plans to go ahead with the future growth prospect and considering these factors in mind Sir?

Aalok Patel: No, we are definitely rural focused. Primarily most of our portfolio is in the rural segment. I think I have said it earlier that yes, the rural segment is sensitive to, I mean everybody is sensitive to stuff like COVID. I do not want to say they are more sensitive or less sensitive. Overall, I believe that the rural segments fared better during the last FY2021 lockdown at least. I do not want to call it a first wave because it really was not a first wave. It was more disruptions related to loss of income, due to the extended lockdowns. I think that the rural fared better than urban. As far as this time is concerned urban probably fared better than the rural and this is just my, I am in Ahmedabad so I can provide a context of where I see and where I live. I know lot of people will be joining in Mumbai and say that oh my god what is he talking about. That is not true at all. On average I think the urban fared better than rural this time speaking. Now as far as our strategy I did say that we will probably be in the coming medium to long term will be concentrating more, not more but giving more weightage toward the individual loan side and the sort of the higher ticket and higher under writing kind of loan products, but we are still rural focused and I think largely speaking after seeing a lot of ups and downs in the last 10 years or the last 11 years for me personally these customers are very, very resilient so they tend to bounce back very quickly. As quickly as they get into trouble, they get out of it as well. I am not too worried about the long-term permanent damage to the rural economy. I think that these guys are much resilient than we urban dwellers are in general because they are used to dealing with such kind of situations very often.

Rajesh Kumar: Okay Sir thank you Sir. Thank you for giving to ask the question. Thanks for all the free flowing answers.

Moderator: Thank you. The next question is from the line of Harish Shah from HS Capital. Please go ahead.

Harish Shah: Thanks for the opportunity. I have some questions. My first question is with regards to what would be our average ticket price looking like now for car segments?

Aalok Patel: The average ticket size in the microfinance size would have increased to about Rs.33,000 to Rs.35,000. Now there are two reasons for that. One is yes, the ticket size is for our renewal customers have increased to a small extent. The second size is also that if you look at throughout last year most of the year, we were concentrating on renewals loans only and so those come in at a higher ticket size to begin with. In the MSME segment it has remained somewhat consistent between Rs.70,000 to Rs.75,000. The two-wheeler we have not done a lot of business in two-wheeler but what we have done has been slightly higher because there is inflation, BSVI and ABS and insurance and pollution and all of that other stuff. That has caused price of the two wheelers to increase drastically in the last two to three years. It went from like a five figure to a six figure thing for even normal motorcycles now. So that ticket size is.

Vivek Modi: That is about Rs.55,000.

Aalok Patel: Rs.55,000 to Rs.60,000.

Harish Shah: In terms of expansion what are your capex plans? For example opening of new branches or expanding into new geography so if you can share some details about that would be helpful?

Aalok Patel: The good news is we have already done with that. In anticipation of all this amazing growth we were expecting starting from April 1, 2021 primarily we opened a lot of branches in Haryana and in Rajasthan so about 30 odd branches against the planned branch opening of about 40 to 45 so almost we are about two thirds to three quarters of the way done. Post second wave I have put a hold on any branch openings. I think you cannot concentrate on so many thing right. I do not think that I want to thin out my operation upper and middle management people to concentrate on branch openings they should be concentrating on getting back to normal as far as repayments and disbursements are concerned. The balance 10 to 15 branches we will think about opening them in the next quarter the Q3FY22. Right now I am not planning to do anything. In the MSME side yes, we do have a plant to open about 10 to 15 branches. We have started slowly opening branches this quarter. I think we have opened up about three branches this month itself and we will probably be done before Deepavali for sure with our MSME branch expansion. As Vivek mentioned, we were in Maharashtra we only have a couple of branches and have kind of put a hold on the Maharashtra expansion for MSME instead we are venturing into Rajasthan given our good experience we had with the micro portfolio there.

Harish Shah: Sir what would be the cost of opening branches? You may just give some ballpark numbers that would be helpful?

Aalok Patel: Ballpark it is not actually very, very expansive. I think it depends like anything from a branch to branch perspective. I think the equipment cost somewhere around Rs.1.5 lakh for the computers and the other stuff. May be another Rs.60,000 to Rs.70,000 for furniture about Rs.2.5 lakh to Rs.3 lakh you will get everything including the safe and the CCTV and the gas and all that other stuff. There is a template that we follow. Whenever we open a branch there is a a minimum amount of stuff that goes in and then there are other things depending on the area there might be a safe or different sizes of it or might be multiple computers if it is regional office or more furniture. It just depends on what the need of that specific area, but ballpark about Rs.2.5 lakh to Rs.3 lakh capex investment.

Vivek Modi: Essentially the capex investment is not something really important for us when it comes to expansion. It is more as to whether we can have a consistent delivery in those areas and we can have a good asset quality coming up, which is the longer process and having the right set of employees to man these offices is something more important.

Aalok Patel: The commitment to open a branch is not dependant on the capex expense. I think it is more dependant as Vivek said on the operating cost side because opening a branch is cheap but keeping a branch running is not so cheap.

Harish Shah: I just have a last question. What is going to be your outlook in terms of cost of funds?

Aalok Patel: That has been reducing. I think post COVID every quarter that has been reducing slowly. I personally actually Vivek will be the best person to answer this and see. He looks very closely at the liability side of things, but my personal opinion is that it has still room to go down in the next couple of quarters, but Vivek I do not know what your.

Vivek Modi: I think in the last four quarters or so the cost of funds have consistently come down and for sure we look forward to kind of getting the benefit of the reduced MCLR by the larger banks for these quarters to start reflecting on our new and old lendings so that definitely is likely to go on but along that side if you look at it, I think the repo rates have stabilized so you are not seeing any further repo cuts for the last two quarters. I think from an overall larger economic background I think the lending rates by the banks seems to have kind of bottomed out for the time being so not a very large room for our cost of funds to go down but yes there could be further more efficiencies that can come into play and help us, but the mix could also change and the mix will also change because we have been doing a lot of other for the last Q4 we have started doing market linked debentures. The structured products some smarter returns from organizations like us. I have seen higher increase or higher interest so that would definitely help us. We definitely look forward to further reduction in the cost of funds.

Aalok Patel: There is nothing too drastic in the bottom line.

Harish Shah: Thank you team for detailed answers. I will wish you all the best.

Moderator: Thank you. The next question is from the line of Balkrushna Vaghasia from Axanoun Investments. Please go ahead.

Balkrushna Vaghasia: Good evening Sir. After the pandemic when we are reading in the newspaper whatever it is national or international news they are projecting that okay the companies are getting more bigger and stronger are getting more stronger and they had advantages of some sort of another so in our industry of course in cost of funds bigger players would have advantage but apart from that do you see that bigger players have more advantage or more efficiency in terms of getting customers or more financial stability or something like that?

Aalok Patel: It is an interesting question I guess. As far as the cost of funds grow yes, I think the larger player typically have better ratings from the rating agencies and while I will personally disagree with that lot of the ratings are based on size but let us not get into that debate because we will run out of time. Typically speaking yes, they do have marginally better control over their cost of funds. As far as their operating cost I think in my experience there are economies of scale to an extent. After that it is not endless whether you are Rs.2,000 Crores or Rs.5,000 Crores unless something changes in your strategy or in your product structure you are still going to need one FO for every 400 to 500 customers and you are going to need a chain about that right. Overall economies of scale will only go up to an extent and what we have in fact noticed is that there at a certain level there are diseconomies of scale so especially when you go from a small MFI to a medium MFI there are a lot of diseconomies of scale going on. Now how we combat that. Typically speaking as per the current guidelines of the RBI whatever savings that we get as far as the cost of funds we have to pass them on to our customers. That is the 10% margin or the 2.7x rule that RBI has. So overall I mean not us but a lot of the people in the industry have become a little lazy because our customers are not very, very prince sensitive so when it comes to like getting bargaining for a better cost of funds, I think on the back of your mind you are always like well if I save 20 bps here, I will have to pass on 20 bps to my customers and my customers do not really care about 20 bps so why am I struggling so much. I might as well get the funds and those kinds of things. With the new RBI white paper that has come out, it is really a game changer as far as I am concerned. I think it is important to note stuff like cost of funds will play a huge factor because that white paper is basically removing all margin caps so if I say 1% and the cost of funds that 1%is going directly into my bottom line, which is all the incentive I need to try look high and low for the best possible rate that we can get. I guess a little bit of a long answer but I do not know if that helps you.

Balkrushna Vaghasia: The next question is related to the AUM per branch that we have in microfinance so basically, we are growing at a very high pace in microfinance so our AUM per branch is lower when I compare that figure with that of other players so is it because we are expanding so that is why it is low or is there any other our operation structure is different or what it is?

Aalok Patel: Our structure is different. There are many factors as far as AUM per branch. Number one you have to consider what is the average ticket size of the loan. Let us say if my case average ticket size is Rs.30,000 and the guy across the street from me is Rs.36,000 so apples to apples there should be a 20% difference in the AUM per branch. The number of clients might be the same. The second thing is about how the vintage of the branches so how old is the branch. The third is that what your strategy as far as branch expansion is. Are you going after the lowest handing fruits where there a lot of population but lot of competition? Ahmedabad for example are you venturing it out into places where there is low density of population and it will take you a while but there is low competition and in general better kind of credit discipline. Are your rural versus urban. Urban tend to have a much, much larger branches. Rural do not. There are many factors to consider and of course let us say I had just opened 13 new branches. Those branches will have no customers and they will basically pull down the average for the rest of.

Vivek Modi: The normal branch will take at least three quarters to four quarters to reach the standard benchmark for the branch.

Aalok Patel: I think typically we reached a breakeven point between 500 to 700 kind of customers so we will try to get there at least in six months or so typically speaking and after that I will not call smooth sailing but once you reach that critical mass the growth you do not have to push so much for the growth of the branches.

Balkrushna Vaghasia: The last question is related to equity fund raising? If I am not wrong we passed a board resolution recently so can we expect fund raising in the next couple of months or may be in the next quarter?

Aalok Patel: I think what you referring to is the resolution on A the NCDs and B the QIPs or other forms of. This is basically enabling resolutions that we take from the board and the shareholders before every AGM because otherwise we raise a lot of foreign NCDs in particular and going to the shareholders every time does not make a lot of sense and it delays things by a huge margin and adds a lot of cost also. For us NCDs , terms loans, whatever it is, it is still debt so we take a board resolution. QIPs resolution also I think we have been taking for the last three years. Let us hope we use it this time. Typically speaking yes, I think you can expect some equity raise coming in the next three to six months. It is no big secret. We were in the market in March. Unfortunately, the timing of the second wave kind of hindered our plans and right now we are taking a little bit of a break, but once things are stabilized and I think the equity investors are confident that worse is behind and they get little bit more confidence around the numbers specifically. Three to six months we should be okay. I think we have sufficient equity right now for growth for at least for six to nine months so we are not in a too big of a rush.

Balkrushna Vaghasia: That was very detailed. Thank you so much.

Moderator: Thank you. As there are no further questions in queue, I now like hand the conference over to the management for their closing comments.

Aalok Patel: I do not have any closing comments but thank you everybody. Stay safe. If you can get some travel get it. I just got some done and it was wonderful and thanks for joining again.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.