Saath Aapke... Hamesha

ESS KAY JOURNAL

SEPTEMBER 2020

We strongly believe in the power of Collaboration and follow the saying- "Coming together is ***Beginning****, staying together is* ***Progress*** *and working together is* ***Success****" - Herry Ford*

Ess Kay Fincorp Limited is obliged to continue and deliver to all our respectable stakeholders this communique and we shall continue to update each one of you. We are happy to share that September 2020 has been a progressive quarter and we have experienced acceleration in business bringing us out of the temporary slow-down and preparing us to get into the Pre-Covid Momentum.

Rajendra Setia
Managing Director & CEO
E-mail: rajendra@skfin.in

FOREWORD

Ess Kay Fincorp is pleased to release the next edition of the Journal which runs pass through the various developments that took place in September 2020 and are resultant of the conservative steps taken in Q1 FY 2021 while we were preparing for the comeback from the Slow Down.

We are thankful to all our stakeholders to have demonstrated their trust in our business and our customers to have abided by their debt obligations and maintained a disciplined repayment behavior. While the pandemic is yet in the system, we believe the economy has accommodated to the new normal and we all are in our own ways finding out means and measures to continue to operate without further interruptions. We are excited to work over the next half of the year since the unlock phases have almost freed the scope of operations for all sectors of the economy and we have a lot in agenda which includes staying connected and justifying the continuous support and confidence extended by each one of you.

We are engaged in testing and modifying our business continuity plans and making the system strong and robust to such challenges which though temporary can cause slowdowns. We are grateful to these tough times since it allowed to pause, look back, analyze and bring in action necessary changes in the system to make it abreast with forward looking changes. We believe each element that makes a business idea a functional machine needs to be polished and lubricated for keeping up the pace with which it has to run the show. We are happy to know that the processes and systems which we were operating upon for years were resilient to such a pandemic situation and the solutions offered by these processes helped us come out of the slow-down and gear up to run at Pre Covid Levels.

The results that have come out is a joint effort of the entire family of Ess Kay and we have been proud over our system to have people who kept value adding when the situation demanded out of box thinking. We have been on the ground and very close to our customers because of which we understand what does our target market and audience demand and so, we can effectively reciprocate to the call of action. We thank each and every one guiding and executing the action plan and we hope to make the next half year a very productive one.

COVERAGE

1. **KEY FINANCIAL HIGHLIGHTS *(as on September 30, 2020)***

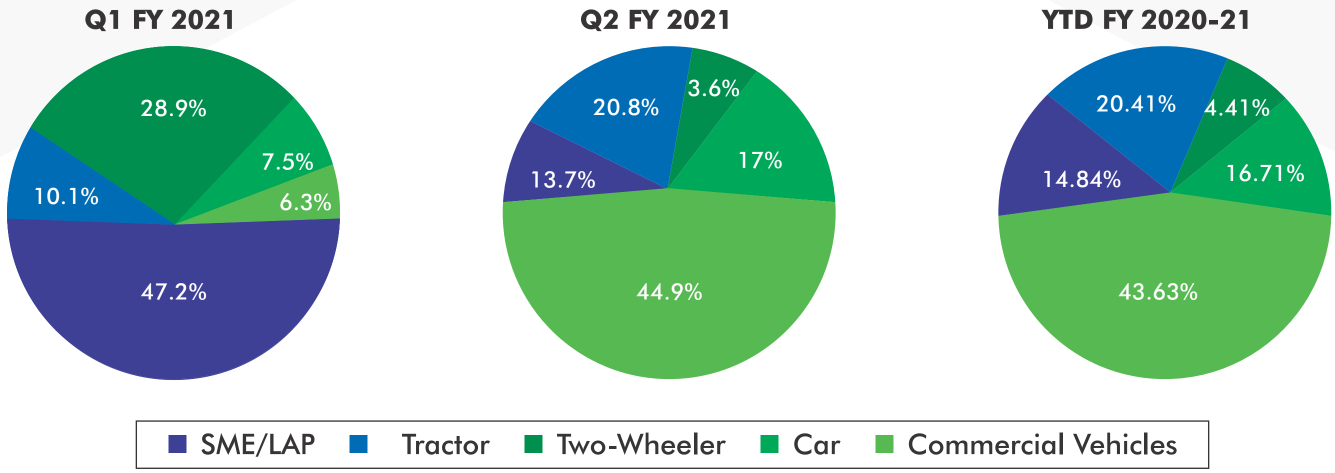
space for awaiting update data

2. BUILDING UP THE ASSETS - DISBURSEMENTS

For an NBFC, the customers are the assets of the company. Each Individual borrower adds up to come together and represent the disbursement channel of the company. If there are no further restrictions and as we all know the relaxations have already been announced across all states, we expect to operate at Pre Covid Average from October onwards. The target of Rs. 1,250 Crs of Disbursal in FY 2020-21 shall be achievable positively. The spread of Ess Kay till date in FY 2020-21, both product wise and state wise, has been enumerated below.

Period	Disbursals Rs. in Crs.
Q1 FY 2021	8.86
Q2 FY 2021	255.36
YTD FY 2020-21	264.22

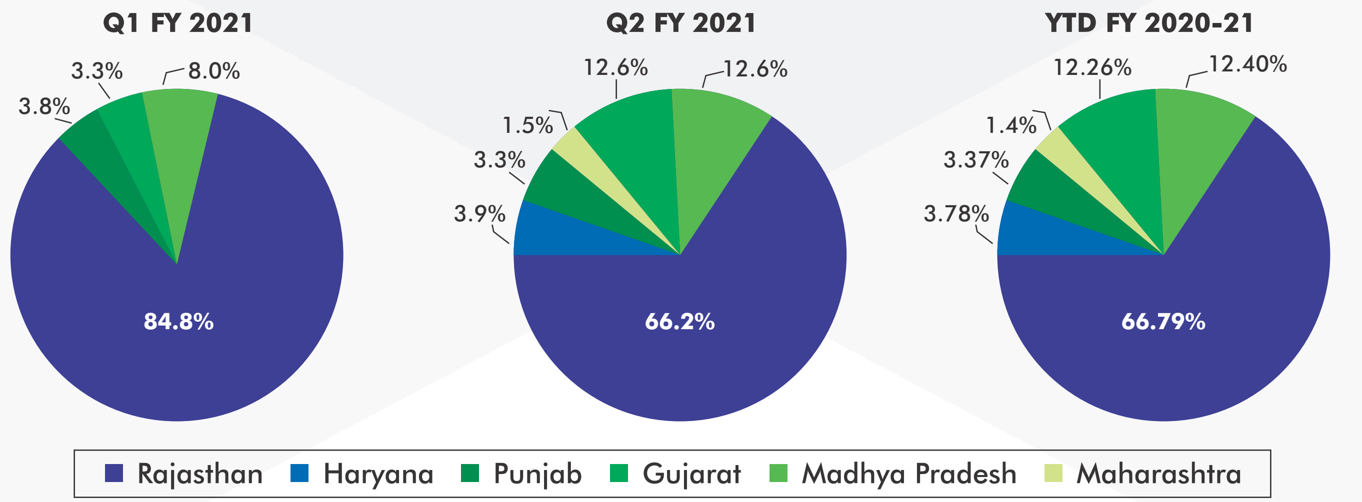
A. Disbursements- Loan Segment/Asset Class wise:



Immediately after the Covid lockdown was phased out by incorporating gradual unlock steps by the government, we saw the demand for money/loan normalizing. However, we have always given weightage to underwriting more than business and therefore it was a conscious business call to re-enter only after having gauged the demand, the underlying reason for demand normalising in a particular loan segment, end use of the vehicle and scalability of income for the customer after deploying the vehicle in the post covid situation.

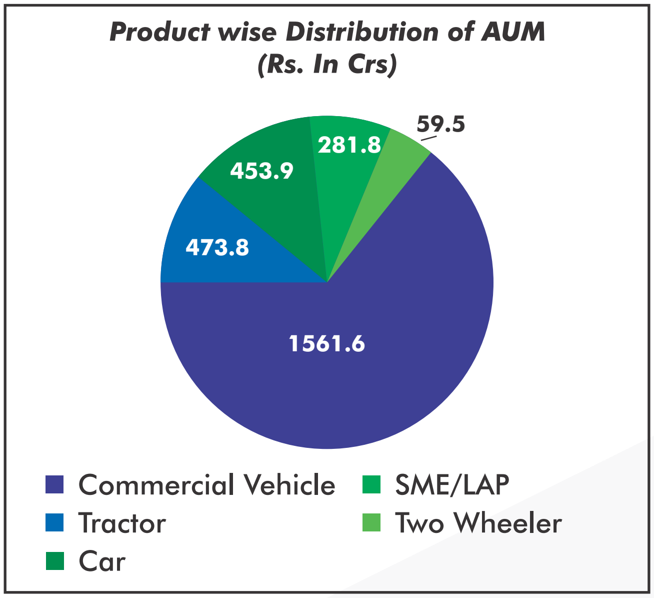
While Q1 FY 2021 went in clearing the pipeline of March 2020 after re-assessment of files logged in for disbursals and pending disbursement owing to lockdown announcement, we disbursed Rs. 8.86 Crores in the period April 2020 to June 2020. In Q2 FY 2021, after having learnt from our interaction with customers and the impact of Covid in the asset class segment that we operate-in we gradually increased our disbursals with aggregate of Rs. 255.36 Crores disbursed in Q2 FY 2021 (July 2020: Rs. 34.22 Crs, August 2020: Rs. 80.20 Crs and September 2020: Rs. 140.74 Crs). Our outlook is to operate at Pre Covid averages from October 2020 i.e. Rs. 150-175Crs Month-on-Month disbursements with appropriate measures of underwriting corrections and adjustments made in light of the Covid impact on the economy.

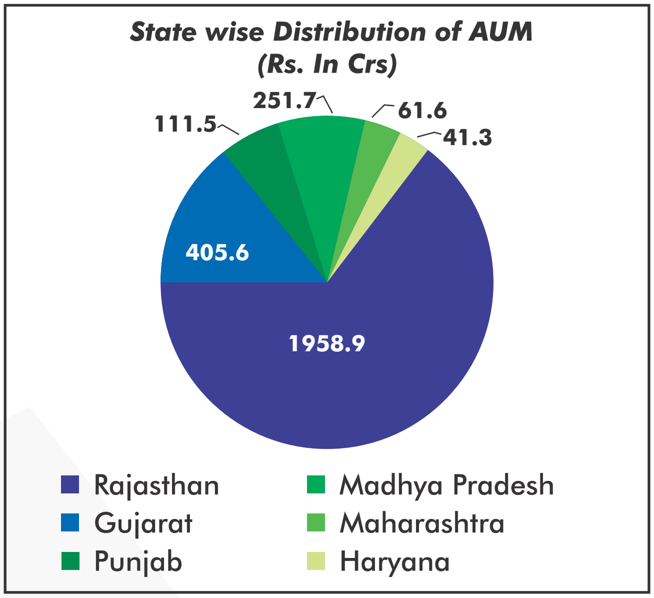
B. Disbursements- Geography/State wise:



Covid and Lockdown impacted the country in different magnitudes depending upon the demographic distribution, industrial clusters in each state, presence of migrant class workers, concentration of population, Metro/Non Metro, Rural/Urban/Semi-urban and various other parameters. While what stands to the advantage of Ess Kay is that we operate 97% in the rural and semi-urban geographies and 3% in Urban, and the first and foremost determining factor to understand the impact of Covid was that the pandemic interrupted the normal routine in the urban areas which had mass concentration of population and where social distancing norms were difficult to follow to avoid the spread. As we can see in the graph above, post pandemic we started with our disbursals in Rajasthan, Punjab, Gujarat and Madhya Pradesh since these geographies showed lesser impact of Covid and Lockdown and large spread of agricultural activities boosted the money flow in these regions. We gradually increased our reach in other states as well that we operate in after the unlock was widened in Maharashtra and Haryana in Q2 FY 2021 which we also drew comfort from resumption of economic activities and deployment of vehicle in income generating activities.

C. AUM Spread- Geographical spread and presence and Loan Segment distribution





AUM Distribution as on September 2020

As on September 2020, Ess Kay is well diversified in the similar pattern as we have been maintaining over years and the products that we have been operating in remain more or less the same with a very little reservation for passenger vehicles that operate for passenger transporation in Urban areas. While we have not completely eliminated any of our existing geographies and products but we have taken adequate steps to ensure that while underwriting in addition to the cash flows of a borrower we even underwrite basis the deployment and income generation capacity of the vehicle. What we have observed over the years is that- when a customer borrows money the intention to pay is well protected with the Credit policies with which we disburse but what is of utmost importance as of now is to protect ourselves with the ability to pay by the customers in scenarios of stress like the ongoing pandemic.

D. Improvisations and Fine Tuning of the Credit and Underwriting Policy:

After a thorough study by the joint efforts of Credit, Sales and Collection team whereby the on ground staff was trained with the questionnaire to be covered while the Field Investigation or Personal Interview of the customer we have made improvisations and fine tuning of the Credit and Underwriting policy to cover the following aspects:

a. Impact of Pandemic on the family of the borrower to understand medical impact, if any.

b. Impact of Pandemic on the business of the borrower to understand the Business Continuity and Income earning capacity which in turn shall indicate the Debt Servicing capability of the borrower as well.

c. Deployment of vehicle pre and Post Covid which shall enable determining the stress on repayment capability of the borrower , if any for the residual tenure of the loan.

d. Ensuring that the vehicle continues to be in possession with the customer or not- Traceability of the vehicle.

e. Request for moratorium and underlying reason for it.

f. Other changes in consumer behavior or request for customer services.

The changes that have been bought to the Credit Policy are primarily steps taken to strengthen the underwriting norms by focusing on viability and strength of income flow from deployment of the vehicle and alternate sources. Some of the qualitative enhancements in the underwriting approach are detailed as under:

a. Sustainability of the business in which the asset is deployed is mandatory and to be clearly captured in the CAM.

b. Other Income of the Borrower shall now be a mandatory field in the system

c. Focus has also shifted on figuring out alternative sources of income as fall back arrangement which in most of our borrowers is generally agri, dairy income and income generated from any business or salary income of any other family member.

d. Margin contribution from the borrower has been increased from 5% to 15% depending upon the product and borrower profile.

e. Bureau Score is now mandatory at 650+ level.

f. Deviation Matrix is completely curtailed and any discretion now resides with credit.

g. List of products earlier funded have also been curtailed by bringing down the list from 72 to 56.

3. TESTING CUSTOMER'S ABILITY TO PAY – COLLECTIONS

Ess Kay's strategy to manage the Covid Impact and announcement of Lockdown on business was to protect the Collections of the company. The decision that business growth had to be slowed down in Q1 FY 2021 and the energy was to be routed to collect money was the combined determination of Sales and Collection Team put together.

Period	Average Collection Efficiency (In %)
Q1 FY 2021	64.23%
Q2 FY 2021	101.24%

Ess Kay's work plan to improvise and maintain collections:

1. What we learned during the process was that the customers had the ability to pay and the willingness to pay but they had to be educated towards the decision making to prioritize debt obligations over saving money.

2. ***Why did Q1 FY 2020 see a dip in Collections?***

i. The need to save money was felt amongst everyone across the globe as a knee jerk reaction to the sudden pandemic and lockdown announcement which had no clarity of improvisation in the initial few months of April 2020 and May 2020.

ii. As a result of it, customers started opting for Moratorium either out of a misunderstanding that the Moratorium was a waiver to repay loan or that the customers interpreted the Moratorium as an option to save money in the temporary period.

iii. We saw applications for opting moratorium in April 2020 and May 2020. As an exercise, the customer service, collections and sales team reached out to each of the customer of Ess Kay to educate the customer with the impact of opting for Moratorium and additional financial implications on debt obligations which led to conversion of such customers from opting in for moratorium and later on opting out of it.

3. ***What helped improvise the Collection Efficiencies?***

i. The first and primary factor as explained above is Customer Education

ii. The routing of the Entire Sales and Collection Team towards collection reminders from all the customers and regular follow ups from customers who did not pay EMI on the exact due dates

iii. Collection from customers through other means of repayment as would be convenient to customers and keeping all options open for it

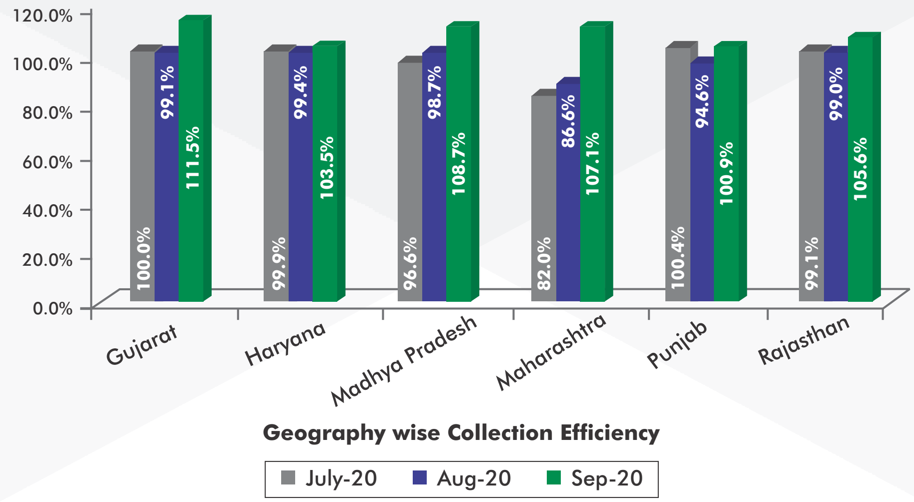
iv. Rural and Semi Urban Concentration of book to the extent of 97% which was not impacted due to Covid played a major role in bringing back the collection efficiencies at Pre-Covid levels

v. Dependency on agriculture, cattle farming and other secondary sources of income from primary sector of economy strengthened the ability to pay. Good Monsoons and resultant bumper Rabi and Kharif Harvest helped the wheel running for income generation of the customers

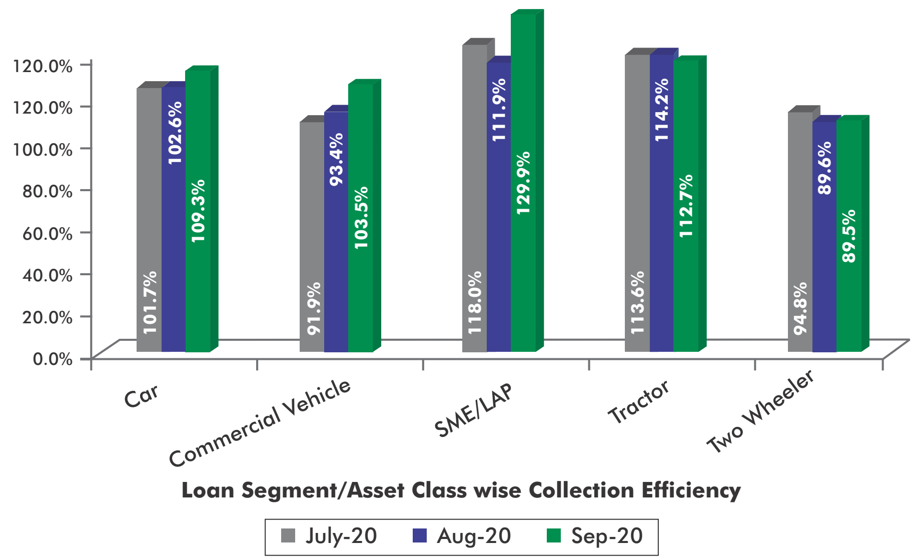
vi. Collateral investigation made mandatory at DDE Stage and from now onwards branch crop user have to fill information in collateral investigation mandatorily

4. The analysis of stress in the portfolio due to Covid and understanding the vulnerable sectors of the economy helped us make calculated efforts towards recoveries from stressed customers and reserved lending in such sectors.

5. *Ess Kay's Month on Month Collection Efficiency in Q2 FY 2021 has been as follows:*



Geography wise Collection Efficiency



Loan Segment/Asset Class wise Collection Efficiency

Note:

i. *Collection Efficiency has been calculated on the basis of Pre Moratorium Billings assuming we have not extended Moratorium to any of our customers. In other words. 100% billings have been considered for moratorium cases as well.*

ii. *For instance: If the billing for a particular month was Rs.100 and moratorium availed was by 20% of the customers, if post morat billing would have been considered the billing would have been taken at Rs. 80 for that particular month. However, for arriving at the Collection Efficiency the Billing has been considered as Rs. 100*

iii. *Collection Efficiency is calculated taking Collections including Prepayments.*

6. *Moratorium Coverage and Restructuring:*

Around 50% of our Customers availed Moratorium in the first Moratorium Cycle and around 10% availed in the Second Moratorium Cycle. Having made analysis basis the historical repayment pattern, income earning capacity of the customer, traceability and deployment of the vehicle, continuity during Covid in employment or operations of the customer we have identified around 4.04% of the loan portfolio under stress owing to Moratorium and Covid. However, this segment of customer has already been factored in while provisioning for the books and we do not stipulate opting for Restructuring for our book. We would like to highlight that none of our customers have availed moratorium in the month of September 2020 vide the Judgement made by Supreme Court for extension of moratorium for another month up to September 2020.

4. FUND RAISING DEVELOPMENTS:

We have raised funds to the tune of Rs. 655.38 Crores of which Rs. 370.88 Crs were raised in the quarter ended September 2020. With the total funds raised and collection efficiencies hovering 95%+ which is providing us confidence that with the transactions where active conversations are live totaling to Rs. 1,300 Crores (of which Rs. 795 Crores of transactions are at very advanced stage under various levels of execution) it should provide us with ample visibility to navigate through current FY 2020-21

Details	Rs. In Crs
Bank Balance	38.95
Unencumbered Fixed Deposits	384.15
Investment in Liquid Mutual Funds	70.00
Unutilized CC Balance	68.78
Liquidity as on September 30, 2020	561.88

The transactions closed during the Quarter ended September 2020 were diversified cluster of Non-Convertible Debentures (NCDs), Term Loans and Pass Through Certificates (PTCs) invested/lent by Private Banks, Development Financial Institutions and Public Sector Bank. The key characteristics of these investments were as under:

In the months of July 2020 and August 2020:

Transaction Name/Instrument Name	Targeted Long-Term Repo Operations (TLTRO) 2.0	Term Loan	Partial Credit Guarantee Scheme (PCGS) 2.0
Funding Month	Funding Month	July-20	August-20
Investor	**Union Bank of India State Bank of India**	**Micro Units Development and Refinance Agency Limited (Mudra)**	**Indian Overseas Bank**
Amount (Rs. In Crs)	85.00	50.00	25.00
Tenure	Tenure 36 months and ~33 months respectively	30 months	18 months
Rating	A/Stable	A/Stable	A/Stable

In the month of September 2020

Transaction Name/ Instrument Name	Non-Convertible Debentures	Term Loan	Term Loan and CC Facility
Funding Month	Sep-20	Sep-20	Sep-20
Investor	**ResponsAbility Investments AG**	**Federal Bank**	**Kotak Bank**
Amount (Rs. In Crs)	70.00	20.00	30.00
Tenure	72 months	36 months and ~33 months respectively	30 months
Rating	A/Stable	A/Stable	A/Stable

Pass Through Certificates (PTC) in the month of September 2020:

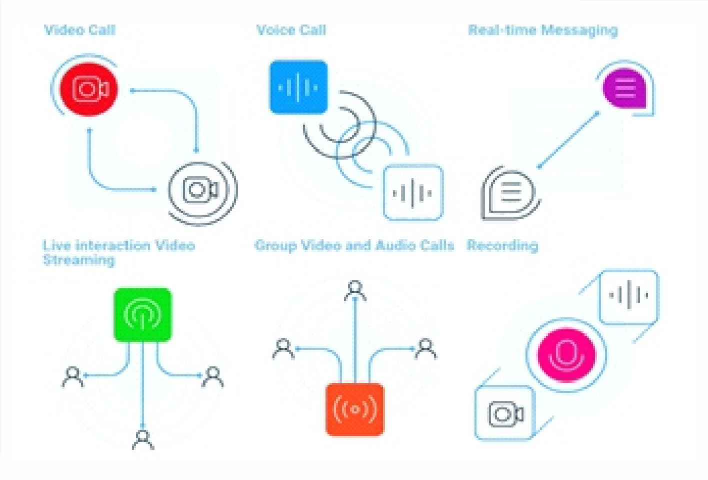
Transaction Name	**Sparks 09 2020**	**Viola 09 2020**
Investor	**ICICI Bank**	**Kotak Bank**
Underlying Pool	Commercial Vehicle and Car Loan Receivables	Car, Tractor and Commercial Vehicle Loan Receivables
Pool Principal (Rs. In Crs)	53.14	45.06
Purchase Consideration (Rs. In Crs)	49.42	41.46
Credit Rating	Crisil AA(SO)	Crisil AA(SO)
	ICICI Bank	kotak Kotak Mahindra Bank

We are grateful to the the ample confidence shown by existing investors by enhancing their exposure and by New Investors in giving an investment opportunity and it shall be our endeavor to keep up the trust and value add to the credit exposure taken.

Investment in PTCs in the month of September to the tune of Rs. 90.88 Crs has been the first investment after resuming back from Covid. We are thankful to the investors since the investment has allowed us as well to gauge the acceptability of our underwriting criteria in the banking segment. Now it's our duty to maintain the Credit Rating and Collection efficiencies on these PTC Papers.

5. **TECHNOLOGICAL DEVELOPMENTS:**

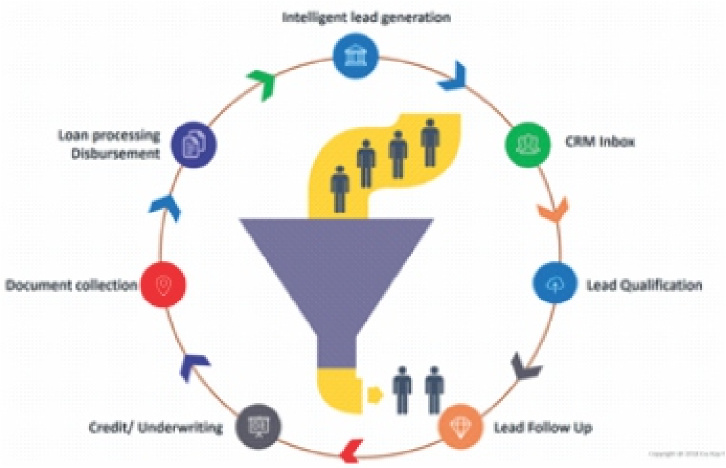
In an initiative to make the best of the slowdown, the digital team of Ess Kay Fincorp has taken various steps in its agenda to improvise our systems and processes which otherwise would have not been possible in the normal course of business. Though these are very small step taken towards digitization and automation, all these add up to make the lending structure of Ess Kay an efficient one. Some of the key developments gone live during the last quarter include:



App for video call in SME is enabled now for all personnel in this vertical. This reduces our TAT via eliminating physical visits to Customer location via different teams. Every team personnel can video call to the required personnel directly via app and the same is recorded, saved and tagged to the deal for future references. All the Credit personal discussions activities to Legal and technical reviews are enabled via virtual calls enabling team to work on case simultaneously and hand in hand with zero time delay.

The details of the Covered Bond Issuance are as under:

Lead Management system is incorporated for 'Customer Retention Cell' enabling team work in structured manner while streamlining process in order to achieve reimagined cycle time from lead to disbursal. Different points are assimilated together intelligently with this tools capability of dynamic workflow and dynamic forms, resulting in business conversion via central team serving all geographies virtually. The complete journey of lead is lived in lead management system i.e., from data conversion à lead à Customer information à Credit approval à conversion à core system mapping. Short term goal for the team is enable and convert 10X business from existing conversion ratio.



6. HUMAN RESOURCE ACTIVITIES

"Talent Identification & Acquisition "

HR function on the constant effort to identify & Incept Top Talent from the market successfully on-boarded **703** employees across geographies in previous quarter. Amongst them **16** employees on boarded were are on key leadership role inclusive Mr. Nripendra Singh – Business Head Two Wheeler, Mr. Prakhar Khushwaha – Chief Product Manager, Mr. Ajay Sharma – Regional Manger Collections. Further **308** offers are in market amongst which **44** are of senior and managerial positions.

"Talent Management – Role Promotion"

In line to our existing philosophy of inculcating performance driven culture, recognizing the efforts & elevating top performers to the next role **59** employees were promoted in last quarter & amongst which "Thirty" belongs to middle managerial level.

"Learning & Development"

Our L& D team via multiple tech tools Inducted, Trained & Mentored new incumbent & employees at the various stages of life cycle.

- ✓ In last quarter, **582** employees were inducted within first week of joining under the Induction program Prarambh.
- ✓ Under ***Shashaktikaram,*** **1339** employees were given educational capsule on Branch Audit, Branch CROP efficiency enhancement & Motor Insurance.
- ✓ Under ***Arjun,*** **1958** employees were trained on ZIP NACH & Two Wheeler ***"Umang Policy".***
- ✓ Under **Jagriti,** employees were trained on Chat Boat, Collection Incentive, Bharat Bill Payment Services, Business Partner Elevation Program & Kaizala.

It shall be our continuous endeavor to keep the working culture motivated with knowledge building along with appreciation of efforts and time invested by each and every one of the employee for the roles they represent. The HR Team themselves took the slowdown as a buffer time available to get the company engrossed with employee involvement and development. We are happy to announce that there was no discontinuation of employees with Ess Kay with the underlying reason of the Pandemic. The applications for attrition received were for personal growth of employees themselves as we feel great to have provided career growth options to employees with the training and experience gained with their stint in Ess Kay.

Reach us at:-

36, Dhuleshwar Garden, Jaipur - 302001

www.**skfin**.in