"Equitas Small Finance Bank Limited Q3 FY-21 Earnings Conference Call"

January 29, 2021

MANAGEMENT: **MR. P. N. VASUDEVAN - MD & CHIEF EXECUTIVE OFFICER**
MR. SRIDHARAN N. - CHIEF FINANCIAL OFFICER,
MR. MURALI VAIDYANATHAN - PRESIDENT & COUNTRY HEAD-BRANCH BANKING LIABILITIES PRODUCT AND WEALTH
MR. RAM SUBRAMANIAN - HEAD-CORPORATE & MC BANKING
MR. ROHIT PHADKE - HEAD-MORTGAGE & VEHICLE FINANCE
MR. JAGADESH J. - HEAD-INCLUSIVE BANKING
MR. NATARAJAN M. - EVP-TREASURY
MR. ALOK GUPTA - CHIEF RISK OFFICER
MR. DHEERAJ M. - HEAD-STRATEGY & IR
MR. RAHUL RAJAGOPALAN - AVP-STRATEGY & IR
MS. SRIMATHY RAGHUNATHAN - CFO, EQUITAS HOLDINGS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Call of Equitas Small Finance Bank Limited's financial performance for Q3 FY21. We have with us today, Mr. P. N. Vasudevan, MD & CEO; Mr. Sridharan N., CFO; Mr. Murali Vaidyanathan, President & Country Head-Branch Banking, Liabilities Product and Wealth; Mr. Ram Subramanian, Head-Corporate & MC Banking; Mr. Rohit Phadke, Head-Mortgage & Vehicle Finance; Mr. Jagadesh J., Head-Inclusive Banking; Mr. Natarajan M., EVP-Treasury; Mr. Alok Gupta, Chief Risk Officer; Mr. Dheeraj M., Head-Strategy & IR; Mr. Rahul Rajagopalan, AVP-Strategy & IR and Ms. Srimathy Raghunathan, CFO, Equitas Holdings Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. P. N. Vasudevan. Thank you and over to you, sir.

P. N. Vasudevan: Thank you. Good morning to all of you. I hope all of you have been keeping yourself safe through these tough times. Hope we all get to our normal ways of living soon. On that note, wishing you all a very happy, safe, healthy, and prosperous 2021. I will break the commentary in to two parts. In part 1 I will talk about our journey of building a stable, sustainable, and scalable bank and in part two, I will talk of the quarter's performance.

As early as 2011 we had envisaged building an institution that was stable, sustainable, and scalable. In line with that strategy we started diversifying our portfolio right from 2011. Until 2011 we were only doing microfinance. In 2011 we have started our used commercial vehicle financing. In 2013 we started the cross sell of small ticket LAP of Rs. 50,000 to Rs. 5 lakhs MLAP as we call it to the top end of our MFI customers.

In 2015 we expanded this offering to Rs. 5 lakhs to Rs. 10 lakhs of business loans secured against house property. In 2017 after converting into a bank we expanded this offering further from Rs. 10 lakhs to Rs. 25 lakhs of business loans again secured by house properties. In 2018 we commenced working capital loans MSME loans and term loans to NBFCs.

All of this has helped to build stability by growing our secured books from 46% in 2015 to about 79% by December 2020. During this period of building stability we focused on sustaining our margins as we could offset the drop in yields arising out of change in product mix with an improvement in cost of funds and operating cost. We have tried to provide this perspective in slides 4 and 5 of the presentation.

Also with the worst, hopefully behind us if we manage to contain the credit cost for the year at about 2.5% I think it will be a very good barometer to the sustainability of the bank even during such tough times. Now coming to the performance for the quarter.

Let me first talk on the industry a little bit. In microfinance, from the customer side we are just beginning to see the first signs of some sort of stability in the repayment patterns. Many of the customers who had migrated back to their villages or back to their hometowns have started coming back as the cities and towns have opened up back again. Collection efficiencies are more or less stabilizing. We see the X-bucket efficiency nearing the pre-COVID levels.

However there is a part of the portfolio which is remained unpaid and this is likely to lead to elevated NPAs and losses for the microfinance sector. The events in Assam is a cause of concern too and there are sector level discussions on how we handle the crisis arising out of Assam. In small business loans where customers are engaged in running very, very small businesses they were totally out of business when there was a total lockdown but as the economy and life opened up the small businesses were the quickest to recover.

These are businesses which are run by the owner themselves and as soon as the government was permitted they were back to business to earn their livelihoods. This is fully reflected in our portfolio also where our expected collection efficiency was very close to pre-COVID level almost from the first month of September and the buildup of NPA is very marginal in this segment.

In the used commercial vehicle finance, it has taken time for the operators to get back to their normal levels of movement we see that for light and small vehicles, the time to recovery was about 2 months to 3 months and we see that more or less in December they are back to normal. As far as the heavy commercial vehicles were concerned the movement of normalization for the goods segment was very strong whereas the passenger segment was still affected, and it might take a few more months for that to come back to normal.

Now let me get into the performance of our bank for the third quarter. In Q3 the focus was largely on collections. In December 2020, the X-bucket collections across all products have reached the pre-COVID levels of efficiency. This is a very significant achievement because what this means is that we are not going to be seeing additional stress being built up on a monthly basis.

The challenge now before the team is in terms of how we handle the accounts which have already moved in to NPA on a proforma basis as of December and also how do we try and resolve our contain accounts which are in 1 to 90 DPD. While Q3 was an important quarter in collection, Q4 would continue to be equally important quarter for collections. Once we get Q4 behind us, we expect to revert to business as usual from the first quarter of next year.

In Q3 we disbursed around Rs. 2,500 crores which is about 80% of our pre-COVID levels and hopefully this should increase for the fourth quarter. As of December, our advances grew by 19% year-on-year and now about 79% of our advances is secured. Our flagship product small business loans continues to show good growth.

In terms of asset quality and provisions we have placed Rs. 113 crores of the Rs. 170 crores COVID related provisions during the quarter while also further accelerating our provisions as per IRAC norms. This should help in improving our provision coverage ratio over time. Our current PCR on the proforma basis is about 60% vis-à-vis 50% in the second quarter. In terms of restructuring the bank has approved a onetime restructuring of accounts for about Rs. 340 crores which comes to just under 2% of the advances and most of them are vehicle finance loans.

Out of this restructuring which has been approved about Rs. 40 crores have been affected in the system in December and the rest would be accounted during this quarter.

In terms of our liability franchise, our savings account balances grew by 96% year-on-year and retail term deposits continued its strong growth momentum growing at 79% year-on-year. Our deposit mobilizations have done well, and we may have to recalibrate our rates to ensure that our LCR moderates to a more comfortable level. This is one factor for our NIMs dropping in Q3. Our focus on Digi Bank growth continues and we have acquired and on boarded over 1.28 lakhs savings account customers through digital and physical channels during the last quarter. Our Fintech collaborations have started off well. We are seeing growing interest among FinTech's to collaborate with us and accordingly we have strengthened our API banking.

We have launched an online NRI account opening process and the 3-in-1 accounts. I am also happy to inform that recently we launched a women centric savings account product EVA which has been well received in the market while our premium accounts which are WINGS and ELITE continue to grow well. Lastly, we are now live on the point of sale acquiring terminals across Master, Visa and RuPay through our own bin. This will help to build better engagement with retail merchants and improve our current account traction in the process.

In terms of leadership front, we have further strengthened our leadership with two new hire, Rohit Phadke has joined us to head mortgages and vehicle finance business. He last worked with Cholamandalam Investment as Business Head, Home Loans. Rohit has a long career with Chola having worked for more than 18 years and previously had handled commercial vehicle finance for them.

Sebi Sebastian is another person who has joined us EVP-Operations. Sebi has close to 25 years of work experience. Last, he was with SBM Bank as COO and Deputy CEO and prior to that, he worked with ICICI Bank for over 14 years heading the retail operations and services.

Raghavan who handles our microfinance small business loan and vehicle finance has gone on a sabbatical for a few months to spent time with his family. Jagadesh who has been handling microfinance and small business loans and earlier reporting Raghavan would be reporting into me.

Thank you for hearing me out patiently. My colleagues and I will be happy to take any questions from you all. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Just a couple of clarifications. So I am referring to your Slide # 22 on the proforma gross NPA numbers. So it says that the large part of proforma slippages has actually come from the microfinance book and given the fact that we do not have any exposure in West Bengal and Assam. Can you please just throw some light on from where this incremental slippages have come from?

Jagadesh J: This is across the Board, but the major part happens from the Maharashtra and Punjab.

Renish Bhuva: Okay, and how is the situation now sir, I mean whether the collections are improving from December level for this first 20 days of January or what is the trend now?

Jagadesh J: Yes, our X collections have been improved quite a bit compared to our December. December almost we are at pre COVID levels of our collection efficiency in the X bucket. We also have seen the considerable level of improvement even in the month of January and also in the markets that we are operating in Punjab where the entire industry has been feeling a little bit of stress on the collections. Our exposure is almost close to less than 2% of our total portfolio. So we will not have much of impact as far as these states have been concerned.

Renish Bhuva: Okay. And sir if you can quantify the industry level exposure in these two states and maybe the interest level collection as well would be helpful sir?

P. N. Vasudevan: Yes, the industrial level information generally the MFin new sectors do give us a good amount of data at the industry level. So I mean we can always try and forward that report to you at some point in time.

Renish Bhuva: Got it sir. And sir next question is to actually Vasu sir. So this X bucket collection efficiency what it stands for, it is the excluding proforma number?

P. N. Vasudevan: See the X bucket collection efficiency so we are talking of let us say two important collection efficiency parameters. One is the X bucket; collection efficiency means the customers who start a month without an overdue. So when I talk of December X bucket efficiency what I mean is customers who as of 30th November do not have any overdue. Out of that set of customers, for that December billing how many of them have paid their December billing. That is what we call as ex bucket collection efficiency and there we have given it in our presentation where you can see that in Slide #21 we have given this particular X bucket data and that is at the pre COVID level of February as well as the December 2019 levels. What that means is that all customers who do not have an overdue as of 30th November their behavior is now back to the normal levels before the COVID levels which means that we are not building additional stress.

The second important thing that you have to look at is in the same page 21 billing efficiency. Billing efficiency we have given for the month of December 2020 where it comes to 88.73% across all the products put together. Billing efficiency in our parlance means the billing for the month of all customers against the collection against that particular billing. So the denominator will include even NPA account billing. So it will include NPA account billing also in the denominator.

Numerator whatever we have collected against that particular month's billing no over dues or no pre closure or no collections of the past months are being put into the numerator, whereas the denominator will include billing of all accounts live accounts which includes NPA accounts, proforma NPA accounts everything.

That is what we mean by billing efficiency and that is at 88.73 which I think probably is amongst the best in the industry.

Renish Bhuva: Got it and sir just last question from my side. Sir, what explains the lower collection in the vehicle portfolio at 82%?

P. N. Vasudevan: But that is a billing efficiency so it is actually not low, that is probably a very normal levels of billing efficiency that we see even in the pre COVID levels because in vehicles normally the X bucket, pre COVID level, the X bucket used to be somewhere in the range of about 80% to 81%. And we used to have about 19% of vehicle finance which will have some overdue anywhere between 1 to whatever DPD.

Renish Bhuva: And you expect the same amount of rollback even now I mean as compared to pre-COVID levels?

P. N. Vasudevan: See that is what I had mentioned in my opening remarks that Q4 it is not like with Q3 we are dusted and done with everything and everything is back to normal. That is what I had mentioned that Q4 would continue to be as serious a collection-focused quarter as Q3 was, because in Q4 our whole challenge has been and now what I have mentioned our X bucket being normal means that my additional stress build up is stopped. But we still have run up a sharp increase in our NPA in the December quarter.

I mean we have seen levels of 4.17 which we have never seen in our history ever before. So that NPA we need to resolve as much as possible and then the 1 to 90 bucket which is there as of December end we need to ensure that we contain that and not allow most of them to slip into the NPA. So that will be the focus. So in terms of bucket wise roll back efficiency and NPA roll back efficiency, those are the things that will be the focus for this quarter and I can tell you that the bucket wise roll back efficiency was obviously the lowest in the month of September, October and it has been improving month on month from there on, and in December I would not say at the same pre COVID level like the X bucket, but we are getting there. Now Jan, Feb, March we should try and get the bucket, OD bucket rollback, we should try and get their back to the pre-COVID. Once we do that, then we know that we are finally finished with the COVID issues and from first quarter we should then hopefully look back to normal business.

Dheeraj M: Renish, on Punjab I think the market size is around Rs. 4,900 odd crores.

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

Pavan Ahluwalia: Three questions. First on the VF portion. As you have guided we have done some restructuring. Vasu, so you have been an experienced vehicle financier. Are you concerned about the ability of the driver or operator to maintain the quality of the vehicle, to maintain its operability? You leave a school bus or a truck kind of stranded for 6, 12, 15 months is there an impact on the quality of the asset, do we have any way to ensure that the asset is being properly maintained so that we do not see value destruction there especially in the event that at some point we have to repossess it?

Second question on the MFI side. We are seeing a lot of different the sector certainly becomes larger and more competitive in the last couple of years. We are seeing a lot of newer player in MFI, some people with large bank balance sheets behind them really pushing growth pretty aggressively. We traditionally had a more conservative stance in MFI. Given that you have a lot of new competitors here trying to be very aggressive what is our approach going to be because are we looking at an industry where in the short to medium term, you are going to see very aggressive pushing of credit where players like us really have no choice either are left with the uncomfortable choice I should say of either taking risk that we do not want to take, or basically giving up growth significantly and how do you view that trade off? I mean how do you see yourself negotiating that landscape.

Third question on the organizational side, you mentioned that Raghavan has taken a sabbatical to spend time with his family. Is it expected that he would return to the bank or is this really the start of a transition out, and if it is a start of the transition out if you take the two, three key verticals that he was heading, I think you mentioned one of them, what is the transition plan for succession to him in his various areas of domain responsibility? Who will be succeeding them, and do we have a plan in place to make sure they are able to ramp up their responsibilities?

Rohit Phadke: On the VF side, the first question that you asked me is what is the quality of the asset? So we had done an inspection of all our assets between August and September and we found that all our assets are in very good condition. So that is one point.

The second point you asked me is whether the people coming in for restructuring, is it good or bad? To be very honest, people who are coming in for restructuring is a very healthy and good sign because then that customer has the confidence and the capability to restart his vehicle, to redeploy his vehicle and he is confident about earning income and that is the reason why he is coming back for restructuring.

Actually I would be very happy if more people would come for restructuring voluntarily, so that they are confident of earning future incomes and restarting their EMI. So these are the two questions I think you asked me about vehicle finance.

P. N. Vasudevan: Thank you, Rohit. I will take that question on the microfinance because it is more at a philosophical level.

You know microfinance is the kind of industry where you can neither love it nor hate it. It is something that you can neither ignore nor embrace fully. And it has been like that for the last 15 years that I have been personally involved in that industry. It has been like that.

It has been a roller coaster industry. You have some periods of very strong growth and it looks as if there is no looking back and things like that and suddenly something happens and you just kind of feel what are you doing here. I mean that is the kind of impact that the industry goes through from time to time. So we have always taken a very kind of a prudent position in the industry. Right from 2007 when we started, it is not like some recent philosophy. We always try to be very prudent and there is lot of history to microfinance. It will take us a very long time if we have to really get on to the entire history of microfinance.

But I can tell you that when I came into microfinance in 2007 I could really not find any key difference between microfinance and the STPL. I do not know some of you may be aware, Small Ticket Personal Loan was a big market in India between 1995 to 2005-2007. It used to be a very big market Citicorp and I mean a lot of players were doing that. And then it went burst. So there was a solid bubble burst in 2007-08 and almost every player lost lots of money and some of them wound up completely in India. So when I came into microfinance in 2007 I was trying my desperate best to try and figure out what is the difference between STPL and microfinance because here again we are giving small ticket loans which are unsecured.

Of course there is a difference in terms of group, but then we are not doing individual credit assessment etc. and there was no credit bureau there was no checking no credit bureau, no real knowledge of who is borrowing what and so we have started the journey of creating a credit bureau. We could not do a bureau of our own so the industry tied up with one of the credit bureaus and we worked very closely and so much of effort has gone into try and bring some semblance of order and discipline into the microfinance industry so that it is sustainable and can sustainably grow benefiting both the borrowers and the companies.

But there are always times, there are always euphoric times when the industry seems to be just kind of moving from strength to strength and pillar to pillar and that is the time when you see lot of new players swooping in and wanting to aggressively grow and then you have a crisis again, then everything slows down. It has been going on like that for a long time. So from our own perspective we will continue to do exactly what we have done in all these years.

We will continue to look for maybe between 15%, 20% growth annual growth we will continue to look for and we have already created a very large client base. It is over about active clients are over 2 million and past clients are over about 3 million, 3.5 million we have. So we have a large base of nearly about 5 million to 6 million clients who have been either with us now or with us in the past.

So our focus will continue to remain how do we work with them, how do we continue to service their requirements and yes of course we will add new clients, but a large focus will remain with our existing clients. And we will continue to be prudent, our size of the loan still remains I believe the lowest in the industry. Our increase in the loan size based on the second cycle, third cycle is still the lowest in the industry etc. So we will continue to remain prudent, we will remain cautious and we are also doing a lot of work at the industry level. We are part of the MFin Committee. There is a special committee formed by MFin to deal with the sectorial issues. There is a Committee created by IBA for enabling the banks, the mainstream banks, and the MFIs to coordinate better. I am part of that Committee also, so everywhere at the industry level we try our best to be part of all the initiatives to see how we bring some semblance of order and discipline into this system. So that is our stand on microfinance.

Pavan Ahluwalia: Sorry Vasu just a follow up on that right. Can you get 15% to 20% growth in an environment where you are the lowest ticket size or the lowest increase in the industry or are you counting on the fact that given some of these blow ups we have seen and tighter regulations that once the RBI and MFin and all come in and impose tighter rules, some of the indiscipline in the industry will go away.

So is it more that you think the industry will rationalize or do you believe you have a part to go into 15% to 20% even if the overall environment remains irrational, and you maintain your discipline?

P. N. Vasudevan: See the industry goes through these periods of rational and irrational behavior. So right now the industry I believe for the next 12 months I think the industry will become very rational and lot more prudent than in the last maybe one year or two years. So it goes through the cycles. And as I mentioned our focus will be largely on our 2 million active and maybe 3.5 million past clients.

That is where our focus is going to be, and there even though I may give the lowest amount, they do not mind it, because they have been with me for a long time. There is so much of comfort developed at the operating level, ground level between our staff and our clients. So I have myself been to a lot of meetings and they keep complaining that our loan size is small compared to others. But they still come back a little because of the comfort that is developed over the last so many years of dealing with us.

And third thing is that the industry is at about Rs. 2.5 lakhs crores and we are about Rs. 3,500 crores, so that gives us the market share of maybe about 1.5%. So I think about 15% growth or

20% growth for us largely focusing on a very large existing clients may not be that big an issue in the industry.

In terms of the last point that you had asked, in terms of Raghavan taking a sabbatical, yes, he should be back in the system shortly.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bryanston Investments. Please go ahead.

Vijay Karpe: My question pertains to the billing efficiency. What is it in Tamil Nadu, Maharashtra, Karnataka, and Rajasthan?

Dheeraj M: Vijay, we do not publish that detail at a state level for various other reasons mainly from a competitive landscape. But you can safely assume that since a lion share of our portfolio in microfinance and small business loans is in Tamil Nadu that is one you take into consideration. Vehicle finance about 27% is Tamil Nadu. But at the state level we have not started giving that breakup so hope you do not mind.

Vijay Karpe: And sir, my next question pertains to the restructuring part. It was earlier guided to be well below 1.5% so this has come in at 2%. So what changed so much and also majority of this is coming from vehicle finance. So if you look at the restructuring that will be happening on the vehicle finance portfolio that will come to 7%, so do you not think the 7% number is a little on the higher side?

P. N. Vasudevan: See, we had initially in the month of September, we had thought that the overall rescheduling request should be around 1.5% level but finally it has turned out to be just under 2% level slightly under 2% level and as Rohit has mentioned earlier, so we kind off welcomed people who wanted the rescheduling because at least it shows that they are still very much committed to the commercial arrangement between us and the borrowers.

In terms of used vehicle in our commercial vehicle portfolio, as you know it is principally the used vehicle market that we operate in and so the used vehicle market our lending rate is also in the range of around 20% plus. And so that is a product which will traditionally have a higher level of NPA and a higher level of credit loss but also supported by a higher level of yield. So the product is like that and it is structured like that. So I think it is quite past for the course as far as we are able to see and we do not see any particular concern arising out of that.

Vijay Karpe: Okay and my last question pertains to the slippages. What are the potential assets that are at risk of slipping into the GNPA?

P. N. Vasudevan: So as I mentioned earlier that is going to be the challenge for this quarter right. The 1 to 90 DPD cases which we started as of 1st January, now how much of that we will be able to hold on and how much will further slip into NPA that is the whole challenge for this quarter. So we are not really giving a guidance on that just at this point in time, so we wait till March and we will be able to share the data post March. but the entire focus this quarter is really going to be exactly that point that you mentioned.

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

Nidhesh Jain: Sir, firstly on the PCR across segments. So do we think that PCR of 30% to 40% in small business loans and vehicle finance represents the loss given default in this segment appropriately or do we see we will further strengthen this PCR going forward?

P. N. Vasudevan: So I think if you see page 18 of the presentation, we have given segment product wise PCR as of December, so you see microfinance has got nearly 90% PCR because that is something obviously we want to be very prudent in terms of provisioning. Small business loan is 35% because historically our small business loans have performed the best, and our LGD has been very, very low so we believe that 35% is a very, very comforting kind of a provision for small business loans.

As I mentioned earlier, they were the quickest to recovery after the lockdown and our net slippage to NPA in small business loan is very marginal compared to the pre COVID levels. In fact our NPA as of December in small business loan is 3% compared to the pre-COVID levels which is also at the same similar levels so hardly there is any change in the proforma NPA in small business loans in December compared to the pre COVID levels. So I think we are very comfortable on that.

As far as vehicle finance is concerned we have got a 47% provision coverage and typically in vehicle finance, the LGD is anywhere around the 40% level. That is what we have historically been observing. So we have put a slightly more than our historical LGD on that. So that is how it has been arrived at. I think it is arrived at in a manner where it gives us lot of comfort that we should not have much of grief arising out of this in the future.

Nidhesh Jain: Sure, secondly in housing finance we have seen reasonable traction in disbursements and in growth though the numbers are in absolute amounts are small, in the past in housing finance 2015, 2016 we had struggled in terms of higher NPA. So how is the asset quality experience there and what we have changed in that segment? And if you can also share the data about what is the incremental yields, what is the customer segment in that segment that would be useful?

Rohit Phadke: We made a small beginning in launching a new vertical in affordable housing loans. The portfolio is very small as of now. We are looking at yields of 11.5%, 12% upwards and fees of about 1%. As of now, there is absolutely no delinquency in the portfolio, and we want to go forward we want to build a pan India book with a clear focus on quality. As of now we are present primarily in Gujarat, Gujarat is one of the biggest hubs of affordable housing and that is why we have made a beginning from Gujarat. Slowly we will also have our distribution across other states too.

Nidhesh Jain: This Rs. 800 odd crores portfolio largely is in Gujarat?

P. N. Vasudevan: Yes.

Nidhesh Jain: And lastly on the liability side, there is sharp growth in bulk deposits in this quarter. So what is the thought process there and because of that I think we have higher liquidity in the balance sheet which reduces our margins?

Murali Vaidyanathan: In liability see, retail to bulk ratio presently we are at 65% retail and 35% bulk and what we were doing in the last quarter was we are changing the structure from callable to non-callable deposits. So what we have sourced is all longer tenure and non-callable deposits. As you know in the non-callable situation, you unlock predominantly close to 60% to 65% of the money available for lending. That was the structural call we have taken, and we are not overpaid. Normally see our pricing for bulk is either on par or slightly lower than retail. That is our approach, so it was pricing wise it was not a bargained proposition. So as you rightly mentioned, to calibrate that this quarter we will recalibrate our BTD so that structurally we got long term funding which is non-callable by nature and also pricing wise is intact and this quarter we will go back and calibrate whatever best we could so that the focus on retail will continue to be there.

So our presence today at this point of time at a book level is 65%, 35%; 65% of the book is retail, 35% of the book is bulk, out of that bulk close to 80% is non-callable. And retail what we do at our book level is we go by the strict classification what RBI has mandated as Rs. 2 crores as the cut off. We do not have a higher cushioning factor out there.

Nidhesh Jain: Sure and in the opening comments you mentioned that you may recalibrate the interest rates on liabilities?

Murali Vaidyanathan: Yes, we have already done that effective day before yesterday on two fronts. On one front is what we have done is we have made the bulk based on certain internal reference benchmark so we have calibrated in line with market and in certain cases what we can afford for bulk. On retail we have gone through a reduction of close to 30 bps across the bucket, so technically we have already corrected our pricing. So I think correction of pricing has been a very dynamic strategy if you see throughout the year.

That is why if you go back to the slides, we consciously have the eyes where in the cost of funds kept coming down over a period of time. So this quarter again we have an ambition to bring it down by x as a percentage. I cannot speculate on this call, but we will stick to that plan and that will be factored by RTD rights, which is already bought down.

BTD rates which is already brought down we will do something on savings account where up to 1 lakhs 3.5% will continue and greater than 1 lakhs at 7% what we are offering. So the differential slabs go out there also. So it is a dynamic process which is on. So this quarter you will see the retail picking up substantially than what it was in Quarter 3.

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

Shreepal Doshi: Sir, my first question is on the collection efficiency. So we have given a collection efficiency against the billing but sir what would be the partial collection like what was out of that collection efficiency what would be partial payment and what will be fully paying customers?

Dheeraj M: Billing are full payments against the EMI and anything above that is what you technically see under collections. So broadly you can put the difference between collection and billing as what has been collected in excess of that month's EMI which can come as partial or it can come as multiple.

Shreepal Doshi: Just one clarification so if a customer has made partial payment that is not part of the billing efficiency basically?

Dheeraj M: Yes, correct. So billing is the full EMI has to be paid and restricted to that that month's EMI. So if he has paid two months' EMI, if you get two months' EMI the current month is only taken in billing whereas advance EMI will come under collections, part EMI will come under collection and just to repeat on the denominator, this includes the overall book so including NPA in the billing and collection efficiency numbers we have given. It is not excluding the NPA, so it is on the full book, so keep that into consideration when you look at these numbers.

Shreepal Doshi: Right so what percentage would be like would we be making partial payments?

Dheeraj M: We really do not track it, so we only track to so how many has paid this full EMI is what we really look at because partial if it is there are two types of partial. Partial in excess or partial in arrears. So we really do not track that. We only track billing or who has paid full and the total collection. The total collection gives you an indication of how many customers are still alive and bidding and making some payment or the other so in our KPIs we really do not take partial EMIs as a metrics.

Shreepal Doshi: Okay so what is our write off strategy in the MFI and in the small business loan category?

P. N. Vasudevan: See the write off strategy for MFI would be based on the management's perception in terms of recoverability of the amount. So if you see in 2018 March we had taken a decision to write off a part of MFI NPAs figures, because post the demonetization some of them in some states especially Maharashtra, Karnataka have stopped paying and those accounts had slipped into NPA and remain there for quite some time and the probability of recovery in management's opinion not being high, so we had taken a call to write off in the month of March '18 on those accounts.

So that will be our approach at every point in time in terms of whatever we feel is not likely to be recovered then that would be the one which will go for write offs. In all other businesses which are secured business, basically we do not go in for a write off to start with. We proceed against the property or assets and then we realize the maximum that is possible from the underlying security and if there is any shortfall out of that exercise that amount is the one which technically goes for a write off but the case may still continue against the borrower but technically the shortfall will be then written off. That is only done after the security is completely disposed and the money realized.

Shreepal Doshi: Right thank you sir. Sir, the third question is as you said that we have encouraged customers to come in for restructuring, so what is the amount like what is the overall restructuring request that we got and so have we invoked all of it, or we made only some of it?

P. N. Vasudevan: So I have already mentioned that we got a request overall for about Rs. 340 crores and that is it, because there is no more request coming in after that. So with that the pipeline has stopped. Now we will have to put that into the system. Out of Rs. 340 crores, Rs. 40 crores have been affected in the system by December. The remaining Rs. 300 crores would be affected in the system during this quarter, but there is no further pipeline on that.

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

Abhijeet Sakhare: Sir, on Slide 18 again, clarification on the vehicle finance disbursement ticket size. We have shown that it is 4 lakhs and when I reconcile that with the pie chart at the bottom, it suggests that nearly 50% of the book is over 5 lakhs. So just trying to reconcile the two numbers and also if you could tell us which are the top few models that we have funded in the last few quarters?

Dheeraj M: Abhijeet, Dheeraj here. So before I give it to Rohit, I do not know if you recollect from what we had communicated long time back, that we have consciously reduced the ticket size and slowed down on the high ticket used commercial vehicle. So which is why the book still carries that so roughly 8 lakhs and above those ticket sizes where we have really controlled it given the slowdown we saw last year, which is why the book still carries it because these assets are 3 to 4 years old and the incremental disbursements are new commercial vehicles and UCVs of a smaller ticket size which is why you see that difference. Over to Rohit on the models we are predominantly funding.

Rohit Phadke: So you are asking about the model, so first of all you know most of the portfolio is used CV so this is about 65%, 70% of the portfolio is used CV and it is usually the smaller LCVs like Tata Ace and other smaller LCVs

Abhijeet Sakhare: Okay, then a question on micro finance. On the same slide when I compare the average ticket size of the live loans versus the last quarter so live loans have gone down but ticket size has gone up to 26,000 from 20,000 so just trying to understand what is the approach here?

Jagadesh J.: Our approach in the quarter 3 is to disburse majorly on the existing client segments. So the client segment would have been improved. In the previous quarter during the pre COVID levels, our existing to new customer ratio is in the ratio of 40 to 60. Now we moved on to 70:30 so that was the surge in the loan amount.

Abhijeet Sakhare: And have we done any restructuring in the MFI segment and if yes how does the behavior their impacted if some customers are enjoying moratorium?

Jagadesh J.: We have received request to the tune of around Rs. 30 crores for MF especially from the clients who are started paying from at least even though they have one or two EMI pending, they started paying the current EMIs. The behavior for the customer who are giving the request is quite good.

As far as the group behaviour has been concerned, they are quite comfortable in providing restructuring to some of the members who could not able to pay. They want to support in terms of the JLG model. So they are quite comfortable in giving the restructuring even to the members who could not able to pay in this point of time.

Abhijeet Sakhare: Understood, and second question is to Murali sir the average SA cost has gone up this quarter is this largely a function of increase in the average balance and what is the retention strategy here because obviously the higher rates are driving lot of flows?

Murali Vaidyanathan: Good point. See as I said, there are two buckets, one is for mass segment of customers where we are offering 3.5% and at the same time even mass affluent and HNI and like our MD said in the opening remarks banks are equally focused on depositors as well as for borrowers. So we need to keep the interest at this point of time and over a period of time we have clear segregation and products for program and high end of products.

So what happens over a period of time is we have already introduced 3-in-1 as an account so which means these consumers who come in for savings as a hook will start deploying their investment, we have a three in one account. We also have our wealth management platform which got recently launched thereon where people can start buying. So the hooked products are one of the key important things and product holding is a very important parameter in our journey.

So present balances at a book level is 38,000 for SA but if you get into greater than 1 lakhs it has moved up to 1.73 lakhs which means people are seeing the aspirational value of building their balances in today's world and it favors us also because over a period of time you land up in selling investment account, demat account and then next you get into debit card offerings. For example last quarter we had a festive offering in collaboration with few of the e-com platform, and so the value enhancement in terms of debit card, in terms of investment, in terms of trading account is already built in and today we have already live on BBPS.

So people can pay 21,000 billers through our platform so every proposition what other banks have, we already have in our portfolio. So it is very critical for us now to get the customers in, make them get used to it and over a period of time this will also taper down as every bank has done it in the past.

Abhijeet Sakhare: I am sorry one follow up, do we have on digitally sourced savings account, how does that compare on the average ticket size and the cost of acquiring the customer?

Murali Vaidyanathan: See, in digital platform there are three buckets. One is who comes in and then just exit okay who does it for the fun sake. Every bank goes through that, 8% to 10% of the people just experience how is the platform working. Next is the half KYC customers. These are the set of customers who come in, want to use the platform based on the features where we have for transactional ability.

There we are seeing an average balance of Rs. 6,000 to Rs. 7,000. Then third are the set of customers who want to convert it into full KYC who is very committed and serious to grow. There we are having a balance of Rs. 28,000. So since it is only a six months old proposition, in terms of behavior over a period of time a full KYC customer of Selfie will be on par with physical channel.

That is our reading at this point of time. So our challenge is to convert most of the customers into full KYC. That work has just started. So just to give you a thumb rule, those who come and experience the platform is zero. The requirement is who come and uses for transaction is Rs. 5,000 to Rs. 6,000 and the guys who are doing full KYC is Rs. 28,000.

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

Sameer Bhise: I just wanted a data point I do not know if I missed it, what is the ECLGA's disbursements for the quarter?

P. N. Vasudevan: Well we have not done anything under that scheme.

Sameer Bhise: Okay any intent to do it in 4Q?

P. N. Vasudevan: Not really.

Moderator: Thank you. The next question is from the line of Aditya from Arctic Lights Capital. Please go ahead.

Aditya: I am going to ask you about the vehicle finance loans. We are seeing that the restructuring numbers are higher compared to the other segments. So moving forward, are we looking at reducing our exposure to it and how careful have we become in giving vehicle finance loans saying that there is trouble in that segment?

Rohit Phadke: There is no trouble in that segment. The issue is we have to understand that because of the pandemic schools were closed, factories were closed and there was no transportation at all. So these are really very honest people, they have good growing businesses and it is only because that everything has come to a standstill that there was no movement, there was no freight for them there was no load for them. Now schools have restarting, manufacturing is restarting, there is load available.

I mean they have been in business for a long time and they want to get back into business and that is the intent with which they come forward for restructuring. So actually it is a very positive thing. It is not a bad segment it is a very good segment, see what RBI has said is you can restructure for people who had no dues as of February 20th.

So obviously these customers are good paying customers. It is only circumstantial that these customers had a problem. And these are the customers who are coming back for restructuring, so I do not think that it is bad, or I really do not think that these are people whom we should not lend to.

P. N. Vasudevan: Also out of the Rs. 340 crores of restructuring that we have approved, about Rs. 57 crores or so I do not remember that number, but it is approximately around Rs. 55 odd crores which are customers who have moved into NPA. The remaining Rs. 200 crores plus whatever crores are customers who actually paid some part of the EMIs of September, October, November December. They have paid some parts of those EMIs and then they still ask for rescheduling because they can see that their cash flows have not still completely matching their old previous level. And in vehicle most of the cases that we have requested for I mean the request for rescheduling has come in, largely is from the passenger segment.

Aditya: Okay so and can you throw some light on how the businesses are coming back for these borrowers, like what is the progress and just some qualitative aspect if you can give me? I know maybe you will not be able to give quantitative numbers on that, but can you throw some qualitative light on it like where are the businesses coming back for them? What is their intent to pay back?

Rohit Phadke: See one quantitative aspect is as you realize that many companies had asked their people to work from home completely. But many people are coming back to office, and offices are opening up. So obviously there is need for transportation, that is number 1. Most of the states are reopening schools from 10th and 12th and now they are also thinking about reopening schools below 10th class also.

So on a qualitative front, you see more people coming out of the houses, more people going to work, needs mass transportation, obviously that is where the money is. Have I answered your question?

Aditya: Yes.

Moderator: Thank you. The next question is from the line of Deepak Shankar from Trust line PMS. Please go ahead.

Deepak Shankar: Firstly I just wanted to understand this 50% of incremental slippages has come from microfinance. So the rest of the slippages or rest of the divisions has been much lower. So are we confident of recovery in microfinance book since most of the markets are getting to open up now?

Jagadesh J.: We can see a very good traction even on the OD buckets as well as from the NPA buckets. Our collection efficiencies apart from the X bucket which is come to pre COVID levels even on the OD buckets we are almost close to touching more than the resolutions what we had done in the pre COVID levels. Even from the NPA buckets we have almost seen in the month of December 25% of the clients are paid the current EMI. So we can expect more traction on our resolutions in this particular quarter even from the NPA buckets.

Deepak Shankar: Okay. And for the rest of the division how much is part of vehicle finance in that incremental slippages for non MF business is around Rs. 125 crores, how much of that will be for vehicle finance?

P. N. Vasudevan: Let us take the question; we will come back with this answer.

Deepak Shankar: Yes, so lastly I just want to understand this disbursement overall still we are at below pre COVID level of Rs. 3,000 crores. So mainly now on the microfinance side we are on the lower side. So when do we expect the overall ramp up of disbursement and specifically microfinance?

P. N. Vasudevan: See we were at 80% in the third quarter. Now fourth quarter it might improve from that 80% level, but I think it will come back to full normalcy maybe by the first quarter only.

Jagadesh J.: As far as microfinance has been concerned, we expect muted growth basically also in the earlier scenario even during external factors like demonetization and Gaja cyclone were predominantly in TN we can see quite a good demand for the loans. But in the current scenario we do not see that much of traction has been happening in terms of the demand. The customers are also much cautious in terms of looking at the repayment capability.

So we look at muted growth as far as microfinance has been concerned in the current quarter, but we expect that normalcy will return back in the next financial year maybe the first and second quarter. As far as the other product like a small business loans are being concerned, almost if you look at the numbers itself we are almost reached the normal stages and we would be seeing a good positive growth in the coming quarter in Q4.

Dheeraj M: Deepak, on the data point you asked, that number is Rs. 80 crores for vehicle finance.

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

Deepak Poddar: Sir, my question pertains to your cost to income. Basically on your reported numbers if you see cost to income has improved. But that was largely driven maybe because your other income is abnormally high this quarter. So can you throw some light on that, so how you see that other income as one off and how do you see your cost to income going forward?

Sridharan N.: See the cost to income for the quarter has now come down to 56.35% as compared to the last quarter of 58.15%. The other income on the liability side is increasing so it will continue to increase actually. So roughly at around 55% it will be actually for the next quarter.

Deepak Poddar: Okay 55% for the next quarter and what about FY'22 we are looking at?

P. N. Vasudevan: We will have to give you a guidance later. We are not going to be giving that now.

Deepak Poddar: Understood. But what you are saying is that the other income that we did about close to Rs. 146 crores this quarter is sustainable?

Sridharan N.: No, see in this Rs. 146 crores, the sale of investment and profit that is the one off sort of thing which may not repeat actually.

Deepak Poddar: Okay understood so excluding that other income we are talking about 59% of cost to income right?

Sridharan N.: Yes.

Deepak Poddar: So my second query is on your credit cost so anything on the credit cost we are looking at? So this year you have already mentioned that 2.5% credit cost we are looking at for the entire year. So we expect credit cost to normalize going into FY'22?

P. N. Vasudevan: As I mentioned earlier with fourth quarter the COVID should be completely behind us which should be business as normal from next year first quarter which will include our growth, it should include our provisions and it should include the profitability.

Moderator: Thank you. We take the last question from Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, first question is on the collection efficiency. So what we have said is the X bucket collection efficiency are very, very robust, and probably as good as pre COVID which shows that the X bucket collection efficiency has normalized. But what I wanted to know is that what is the quantum of the bucket itself so if you have that number maybe at the beginning of the quarter or maybe at the end of the quarter? Then what is the total number which are non-regular?

Dheeraj M: So X bucket from gross advances is close to 90% of the overall bank book.

Jai Mundhra: So 10% work in various buckets, right?

Dheeraj M: Yes. 10% is not paying, there are NPAs also so some of those customers do not pay but 10% is delinquent. One plus.

Jai Mundra: One plus which will include your proforma NPA, but they will?

Dheeraj M: Those customers who pay from that bucket will come in the numerator of collection efficiency not in X bucket, X bucket does not include any delinquent customer.

Jai Mundra: Right so in other words the PAR book if you were to say let us say 1 DPD would be close to 9%, 10% and would include the proforma slippages also?

Dheeraj M: Yes, one plus PAR is 10%.

Jai Mundhra: Right and second sir now is that the portfolio is credit tested, and the outcomes I believe are better than what we were anticipating earlier. How should one look at the growth trajectory maybe from a 12 months' perspective or maybe from a 2 years perspective?

P. N. Vasudevan: See in terms of growth we continue to operate in segments where there is a high level of demand and supply is generally very, very low. So there is always no dearth of demand in the segments that we operate and so growth is generally not really a big challenge. The level of growth that we will achieve will depend on our comfort on the asset quality. So we should just finish this year and ensure that the fourth quarter ends well.

The real challenge for the management team would be to see how do we bring back the GNPA to the lower level than the December which would mean that we have been able to roll back more than the roll forward and that will be the real challenge and that will be the real comfort for us. Growth is generally never a challenge so from next year if we should get back to our normal levels of growth.

Jai Mundhra: Right so and if I can just follow up on that. So I take your point that the demand is out there and now the portfolio has also been credit tested. But I mean should it then be let us say more than 20% kind of a number in a normal year?

P. N. Vasudevan: Yes, you should be able to assume that.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Mr. P. N. Vasudevan for his closing comments.

P. N. Vasudevan: So thank you all for joining. I know it is a very busy result reason all of you must be tied up with and following up of so many results of so many banks and other entities. So taking out time from all that and coming and joining us for this call was very nice of you. Thank you so much and look forward to your support as ever.

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.