



“Can Fin Homes Limited Q2 FY21 Earnings Conference Call”

October 29, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the Can Fin Homes Limited Q2 FY21 Earnings Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Utsav Gogirwar from Investec Capital Services. Thank you and over to you, sir.

Utsav Gogirwar: Thank you, Rahman. Good afternoon everyone. Welcome to the Q2 FY21 earnings conference call of Can Fin Homes Limited. To discuss the financial performance of Can Fin Homes and to address your queries, we have with us today Mr. Girish Kousgi – MD & CEO of Can Fin Homes, Mr. Shreekant Bhandiwad – Deputy Managing Director, Mr. Prashanth Joishy – CFO and Ms. Shamila – Business Head. I would now like to hand over the call to Mr. Girish Kousgi for the opening comments. Over to you, sir.

Girish Kousgi: Good afternoon to all the investors and thank you for coming on this call. I had slightly changed the format this time because every time we find that there is not enough time to handle all the questions. So I just thought you would have gone through the financials, so I would straight away start with how Q2 was in terms of our business, NPA strategy and what is the outlook in terms of business NPA. And any specific questions on financials, we can take it up in the Q&A session. So, I will keep the format that way so that we will have more time for Q&A session.

So Q2 was basically a very good for us. I say it was very good for us because we were quite high on liquidity as usual because we thought that this is the time that we should be excess on liquidity because excess on liquidity would help us to borrow at **(Inaudible) 2:17** cost and therefore will be able to onboard more number of customers since the price is going to be competitive. So we were quite high on liquidity.

Our 4 DNA parameters are liquidity, growth, asset quality. So we actually focused on that. In terms of business, Q2 was better than Q1 obviously because in Q1, we lost almost about 65% of the entire time. We did business only for 5 weeks out of 12 weeks and therefore, we were able to do about little over 400 crores. In Q2, we did 825 crores which is little over double than what we get in Q1.

In terms of demand, demand is slowly coming back which we have seen in Q2. Q2 being significantly higher than Q1. If you compare on a YoY basis, definitely, there is a degrowth to the extent of 38%. September, we are at about 70% of our peak level, otherwise, every month, this number was increasing and now, we are at about 70% of peak level. On moratorium, initially we said, both part 1 and part 2, once the time had matured, we were at about 29% of the book was under moratorium. So, morat is now over.

Now, September, there was the first full month where all the customers had to pay whether customers had opted for morat or not. So in the month of September, our collection is 93% which is actually better than pre-COVID months. So in terms of collections, it is a very good sign. It maybe just one month, but that one month is very critical. Since customers who had availed moratorium, they had not paid for either 3 months or 6 months depending on what they had chosen. And suddenly coming back and paying in September is something which really is very critical from company's point of view and therefore, we feel that now that morat story has actually played out in terms of risk, we still have to manage that. We have to see for at least 2 more months that is October and November, but even in October, we have seen at least about 70% of the customers' EMIs were due and we have status of that, so we feel that now morat is actually played out. And going forward, I think we need to manage a set of customers who were not able to pay in September and actually require some kind of restructuring because their business is not up to the mark or it has not started or maybe in terms of salaried job lost cases. So our focus is going to be on that.

In Q2, largely our focus was on asset quality, trying to get customer understand the entire moratorium process and its impact and getting the awareness amongst the customers to start paying from September. I think it looks like in hindsight that I think it was a good effort and it has yielded results. Since our collection percentage has actually increased, just to give you an industry comparison, pre-COVID, post COVID, increase in bounce rate at least companies which are focusing a blend of HL and non-HL, non-HL being equal to or less than 30%. The bounce rate increased by about 70%-80% is what I get to understand. For us, the increase in bounce rate was just about 20% and this is on a very low base because our bounce rate was is lowest in the industry and on that, 20% increase also would be obviously hardly anything. So I think it talks about how good the portfolio is and how good the portfolio is built over a period of time. So this is what now happened in Q2 in terms of managing the customers, managing morat and also managing collections. In terms of business, we are now operating in all the locations where we are present, but demand is not completely back, it will take another 2 quarters. In Q4, we may reach to a level of about 85% of peak levels. To reach 100%, it may take another quarter or so. So Q1 of next year is when probably we can say that we will be back to pre-COVID levels.

Since our collection was very good, the team has really put in great efforts. Our NPA has actually come down this quarter to 0.72% which was 0.75 last quarter and even if I have to assume deemed NPA because of Supreme Court direction, there was no NPA tagging and therefore even though the DPD moves, we have not tagged. So even if it takes that pool into account, our NPA would have been 6 bps higher that is 0.78% instead of 0.72. And one more clarification I would like to give is that in the SEBI format, we have mentioned opening balance was 1,444 crores, this is the opening balance and that balance as of September, this is basically customers who availed moratorium part 1 and 2 or any combinations, some would have chosen only one, some only two, and some both. The outstanding of such accounts, the balance we have mentioned that

is 670 crores. So basically, this is the pool or set of customers where we have extended asset classification benefit. Now, this has got nothing to do with the provisioning what we have done or the NPA numbers, deemed NPA of 12.45 crores.

Now, we have provided 86 crores towards COVID in terms of provisioning. So Q4, we provided 36 crores. Then Q1, we provided another 36 crores and this quarter, we have provided 13 crores general provisioning that is towards COVID only. So overall, it is about 86 crores. So we are holding enough and this is apart from provisioning for NPA, which is about 55 crores. This apart, we are holding 74 crores for standard asset. So totally, it is 214 crores. So this 86 crores is more than sufficient for us to absorb any shock if any with respect to NPA in next 2 or 3 quarters.

Our strategy in terms of profile mix is going to be the same. Because of COVID, we have seen a slight dip in the profile mix, salaried proportion has gone up and self-employed has come down. So we are trying to get back that to the right mix, but it may not happen immediately because there is an inherent risk if you maintain the same profile mix and therefore maybe in next 2 to 3 quarters time, it may come back to the same profile mix of 70 salaried and 30 SENP. As of now, SENP has come down and salaried has gone up. It is more because SENP has come down, salaried looks high, it is not that salaried has gone up because we are at about 70% of peak level and therefore there is a slight change in that.

In terms of product mix, there is no change since our non-home was a very small portion, so that has not really undergone too much of change. But for this, we are pretty comfortable in all other strategy whatever we stated in last couple of quarters, our focus is on affordable housing in terms of branch expansion. Every year we plan to open about 15 odd branches. In last 2 quarters, we were not able to open because of COVID since there was the mobility constraint.

In terms of all the key ratios, today, NIM incremental, NIM is 4.09. Now, there have been many questions even on media. 4.09 is not sustainable. We will be happy for a company of our size given the kind of business we are into. NIM upwards of 3% will be comfortable. So 4.09 is an aberration. Eventually, it will come down and settle at about 3. It may take some time, but 4.09 or 3.8 or 3.5 is not sustainable in the long run. Our spread also, we are at about 2.86. Spreads will be around 2.4 and NIM will be around 3 in the long run. In terms of liquidity, we are very well covered. As I told you, it was a strategy to be excess on liquidity.

Today, as we speak, we have unapproved, but not utilized limits close to about 5000 crores and we have another 2500 odd crores in the pipeline. So, we are very well covered for next 1 year on liquidity. So we tried to reduce our costs in the last quarter. So we engaged with all the bankers. We tried to bring down the rates and therefore you will see our margins improving. Last few quarters, there was a trend of falling interest rates, but going forward I am not very sure how long this will go on because from current level, drop in interest rates will be marginal and

therefore there will be contraction in margins which is why I said the current NIM and spread is not sustainable.

In terms of all the growth parameters, I think you would have seen that. So I would now open up the forum for Q&A so that we will have more time to address all the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashutosh Garud from Ocean Dial Asset Management. Please go ahead.

Ashutosh Garud: Couple of things. If you can throw some light on a) first is competitive intensity. How is the competitive intensity in the given scenario where maybe you suggested that the demand outlook is yet to come back to its pre-COVID level. So if you can share some aspects on the competitive intensity, what kind of prepayment happened, any transfers which maybe some competitors got intense in the given scenario. And also on the demand outlook, if you can share your thoughts on how long it will take to come back to normal because given the interest rate scenario, there is a feel for higher demand on affordable segment. These two aspects, if you can highlight?

Girish Kousgi: So what happened is during COVID time in last 2 quarters since the demand in the market was quite low, so there was heightened activity in BT. So there were lot of BTs which were happening, so it is a game that every company has to manage between BT in and BT out. So we just saw BT out increasing. So quickly, we had put up a team in place. We have a very strong retention team now and also we passed on the interest rate benefit to all the customers, so that the existing rate for the customer would be competitive enough for us to retain such customers. So competition had increased. I think this pressure will be therefore at least next 2 quarters because lot of private banks and PSU banks because their cost structure is different, they would be in a better position to offer competitive rates to HFC customers, but having said that, we are somewhere in the mid path. On one side, we have lot of HFCs from whom we can take over looking at the customers profile and the repayment history. At the same time, on the other side, we have set of institutions including banks who take over loan from us. So it is a balancing game. Only thing is there was slight change in the mix in this BT component because overall demand was down. Now, demand is back. If you compare the demand in May, June and now, which is September, October, I think there is significant change. I think over a period of time, this heightened activity in BT also would come down. It is coming down; it will come down in future as well. So it is a very temporary thing and all the HFCs had to manage this. We also managed that. The impact of this is that our asset growth would have been in the range of 14.5-15% whereas now it is 10%. So I think it will be in the range of 10-11% for next couple of quarters and then from Q1 of next year, I think everything will be back to normal. This is in the competition. And also just adding to what I said earlier, since our cost is very less, we are in a better position to offer competitive rates to the customers, so we are able to onboard customers because of our pricing more than before. Even though it is COVID, we were able to offer

competitive rates and we will be able to get more customers onboard. However, we are still at 70% of peak levels.

Now in terms of demand outlook, in Q4, we will reach about 85% of peak. Still there will be a gap of 15% which I think, and this is largely because of the builder space because builders, they are still under stress. So they will take some more time to come out with new projects. They will take some more time to complete all the ongoing projects and therefore, it will take, maybe Q1 of next year or Q2 of next year that is when we expect in the affordable space 100% of demand to come back considering the mix what we have. Our mix is 25% builder, 75% non-builder. So this is true for Can Fin, may not be true for other companies who are in affordable space as well because our mix is different. We are in affordable, our builder is only 25% and therefore this is true for Can Fin. For others, maybe, quarter here and there, there could be a difference. So 2-3 quarters we should be back to about 100% levels.

Ashutosh Garud:

And sir just to understand from a medium term perspective, would that mean from HFC competitive scenario, you would stand to gain because the current situation and since 2018, we have been some kind of competition at least within HFC is receding. So from a medium-to long-term perspective, would that scenario be in your favor once this temporary competitive aspects on the bank play out?

Girish Kousgi:

We actually gained more till pre-COVID that is till March, we really gained because in last 2-2.5 years, lot of HFCs, they either slowed down, some were closed as well because of IL&FS and Dewan and therefore it was advantageous for companies like Can Fin. So we actually got the benefit and therefore you will see that we accelerated our growth in Q3 and Q4, not just on book, but even on disbursement, but unfortunately COVID happened and there obviously it impacted the entire market. So in spite of COVID, we were able to manage it better; 1) because the team had put in lot of efforts, 2) because number of players in the market had come down, so that also helped. It helped us more till March. It was little helpful during COVID period and I think maybe starting from this quarter, I think we will again get back to those levels where the gain for us is going to be leading more than what it was because of number of players coming down. So it actually helped because we have liquidity, our business model is quite good. We are present in small towns where the demand is there and competition is less. We are able to reach out to customers much faster than others, so that definitely the benefit is there, but we saw little less of that benefit during COVID time last two quarters.

Moderator:

Thank you. The next question is from the line of Anirvan Sarkar from Principal Asset Management. Please go ahead.

Anirvan Sarkar:

Sir, just for my understanding, the table that you have published, I just want to understand what this means. So it means that you have said that as of 31st March 2020, the amount where asset classification benefit has been exempted is roughly 210 crores. So does this mean that 210 crores

of assets for us slipped, if not for the standstill benefit as of 31st March and this amount is increased to 650 crores as of September. Is that the right understanding?

Girish Kousgi: I will try and explain. So, 210 crores was SMA-2 in March. If there was no moratorium and if all these customers had not paid 210 crores, would have become NPA.

Anirvan Sarkar: So, they were SMA-2 as of 29th Feb or as of 31st March?

Girish Kousgi: 1st March. So 1st March, we had SMA of about 210 crores. So if these customers had not paid, they would have become NPA and this 210 is no different than February or January or December or whatever, only thing is we had to provide 10% on set of cases where we are extending asset classification benefit. Since moratorium started in the month of March and for Q4, March was the last month in the quarter and if all this 210 crores set of customers they operate for moratorium which means we have extended the benefit of asset classification and therefore 10% of 210 crores, 21 crores we have provided, this is for Q4. Now then as of September, we had to declare 2 set of customers where we have offered moratorium and asset classification benefit. So when we say asset classification benefit, the entire SMA-0, SMA-1, and SMA-2, all these set of customers which is 1,444 crores. You can see that opening number. All these customers they opted for moratorium. So SMA-0 in the month of April if they don't pay 3 installments, then they will move to the fourth bucket and 90 plus that is NPA. That means the entire delinquent pool, SMA-0, SMA-1, and SMA-2 since they have not paid which is true for every single company I guess, so that would have become NPA and therefore by offering moratorium, we have extended asset classification benefit. So that number as of September is 670. I will give you an example. For example, let us say SMA-1 customer, he would have paid one EMI. Unless the SMA accounts become regular, if it becomes regular, it will not reflect here. Even if there is Rs. 1 in one DPD that will appear here, it means that 1,444 customers who opted for moratorium, some have chosen part one, some have chosen part two, some have chosen part one and part two, some have chosen but still they have paid half the EMI. If they have chosen, they would have paid little bit of amount for 3 months. So the outstanding of 1,444 has come down to 670. So what happened to 1,440 opening balance of SMA, this is the entire pool of SMA and the 670 is the number of all customers who opted for moratorium and that is the balance as of 30th September. So this has got nothing to do with NPA or provisioning. It is the disclosure which RBI wanted all the banks and HFCs to disclose and therefore we have disclosed.

Anirvan Sarkar: Got it. So 661 crores roughly is the amount, this has come from an overdue as of 30th of September and who have taken moratorium.

Girish Kousgi: It can mean any bucket today, today it can mean any bucket. It can mean SMA-0, it can mean SMA-1, any bucket.

Anirvan Sarkar: Got it. So the other thing is that, because our provisions made has actually stood kind of stationary between 2Q and 1Q because of 728 crores, so have we considered making some additional provisions on this pool because I understand not all of this will slip but as of now on this 650 crores, we have something like 11% coverage. So would it have made sense to provide some more on this or how are we looking at this slip?

Girish Kousgi: So, today for example, today our NPA is 150 crores. If we take the 210 crores which was in March, as of September it was 12.54 crores. So that is deemed NPA. We have not tagged because of Supreme Court direction. Other ways, our NPA would have been 150 plus 12.5 that is 162.5 crores. That means it is 0.78%. Now, our NPA itself including deemed is 162.5 and we have provided 86 crores towards COVID which means, we have a buffer of our NPA increasing by more than 500 crores which is in extreme possible. I am just giving a number. We are holding enough and more provision towards COVID because we have a comfort that we will have the right to write back in Q4. So we are holding more than enough, 86 crores is more than enough and the outlook on NPA also I have said before for the benefit of all the investors I will once again state. Our NPAs next quarter and next to next quarter will go up. Q3 it will go up, Q4 it will go up. So in next 4 quarters or so, we will be able to bring back NPA to the current level. So we don't expect our NPAs to rise drastically. NPAs will go up, but it will not go to that extent that we need to bother about provisioning because we are holding enough and more provisions towards any future NPA because of COVID.

Anirvan Sarkar: Got it, sir. Very helpful. The second question that I have is that, some interactions have actually said that home loan demand has come back in a big way. It is a commentary from bank, it is a commentary from BSF. So retail home loan demand is back in a big way to the extent of towards the end of September. At least, the bigger banks were kind of full with their queries and could not handle anymore. That was the feedback given. So what is our experience, in the sense that I know you have commented on demand already, but are we holding back to some extent choosing to go cautious or are we taking a calibrated stand, how are we looking at this, what is our approach?

Girish Kousgi: Fortunately, our mix is 70% salaried at a portfolio level, 70% salaried and then 30% self-employed. So we have slightly tightened the policy for self-employed because I think we thought that was wise to do. Maybe we will stay with that policy for another quarter or two. So otherwise in terms of business, we are pretty aggressive, and we are present in all the markets where demand has come back, and we are pretty aggressive on our numbers. Now, this is on one side. So just to answer your question, we are pretty aggressive, and we are open to do more business because one of our DNA is growth and we want to keep that at the high. But however, having said that, we are little cautious on self-employed and rightly so at least for next 2-3 quarters we should be little careful on self-employed, that we are. Now what will happen is maybe in next few quarters, all these things will come back, our mix of 70:30 also we will start seeing in next 3 to 4 quarters. So it is only a question of time that you know we are little, slightly conservative

on SENP, but very aggressive on salaried. Since our mix is favoring salaried, we don't see any impact on that. Also, it is also the time that every single company should focus on asset quality because getting back business is just one quarter. One quarter if there is enough focus on business, we can get business back, but getting book into shape is a 3-year story. So our focus is slightly more on managing our asset quality and we are very clearly focused on collections, little more than required vis-à-vis compared to business. Having said that, we are not ignoring any business. Since the demand is low, there is enough bandwidth available which we are utilizing for collection which is why you will see our collection at 93% in September which is better than even pre-COVID levels. If I compare it with January or February, September collection percentage is excellent in spite of 20% spike in bounce rate. And this bounce rate is purely because of COVID and 20% is what I understand is the least in the industry. So we are very open for business, but it is very easy to get back business once demand is back. It is extremely difficult to get book in shape and therefore there is constant effort in terms of managing portfolio.

Moderator: Thank you. The next question is from the line of Rahul Nair from SBI Mutual Fund. Please go ahead.

Rahul Nair: This collection efficiency figure of 93%, does it include the previous month outstandings as well or just the September billing?

Girish Kousgi: What happens, let us say we had a set of customers. Out of that, we have two pools, one who opted for morat and one who didn't opt for morat. So set of customers who had not taken morat anyway they are paying for 6 months. So they will continue paying in September also, so that is not the worry. So the worry is on set of customers who had opted for morat which would have a combination of delinquent and regular in terms of profile salaried and SENP. So that pool is a concern. Now I am only talking about what is the demand which was raised in September and how much you have collected, that is 93%. So our collection is 93%. And to answer what is the collection out of the morat pool, that 1,444, 660 I think that is the answer for that, which means lot of customers who opted for morat still we have gone ahead and made some collections in delinquent account because the due pertains to prior to COVID period.

Rahul Nair: And as a percentage of your AUM, what proportion is the customers who have paid nothing, zero installments?

Girish Kousgi: See, this number keeps changing. So I mentioned in last interaction, 14% of customers they had opted for both the morats, part 1 and part 2. But that is history because they all have paid in September **(Inaudible) 33.56** is 93. Morat is now over, I think that has played out very well for us. So September, my collection is 93. So once I look at September collection, so the 14% who had part paid, 14% who had not paid anything, all that is now even which happened prior to September. So September 93% and October we have very encouraging trend. So now we feel

that I think morat has now played out very well and we need to probably focus on restructuring for customers who are in stress.

Rahul Nair: And for restructuring, what is our preliminary estimate?

Girish Kousgi: It is too early actually. Restructuring we will take it up as and when it comes. So we have a feedback mechanism where the branch engage with customers and gives feed to collections team which is based in central office and then we take it up case by case depending on the stress level at the customer level and then based on the policy approved by the board as per RBI direction, so we will restructure. But this will be on a case-to-case basis. If customer is in stress, we will restructure. This feed will come from the branch. It will come to collections as a feedback to credit team and credit team will appraise and restructure the loan.

Rahul Nair: So till date, has any customer approved this?

Girish Kousgi: So far, not anything, when I say so far, till date.

Moderator: Thank you. The next question is from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antariksha Banerjee: Sir, two questions. First is on sanctions. So for the quarter I know the number, it is available on the, I mean you have given the number of new approvals. But if I compare September versus September particularly, how much would it have reached compared to last year, the exit number?

Girish Kousgi: See, Q2 compared to last year Q2, we were down 38% on disbursement, the sanction we have not seen, but it will be in that range only because what really matters is disbursement because there are lot of cases which we sanction, but we are not able to disburse. And unless I disburse, company is not earning interest. I will just check the percentage for you.

Antariksha Banerjee: So I think the quarter numbers I have. Correct me if I am wrong. The trend must have been upward only, right, from July-August to September. So the September number will be closer to last year levels than probably for the whole quarter average, is that right?

Girish Kousgi: No, that is what I mentioned. So, when I told 70%, it is not 70% YTD, it is 70% in the month of September. So when I said demand is back that is incrementally because if I see, probably May we would have done some 40% of what we did in previous May. So 70% is not YTD, it is only for the month of September that means there is degrowth both in disbursement and sanctions even if I compare with last year September.

Antariksha Banerjee: Got it. I am sorry if I missed some of your opening remarks. So you expect this to go back to the normal run rate by when?

- Girish Kousgi:** In Q4, it will go up to 85% and in Q1 100%.
- Antariksha Banerjee:** And do you see any geographic difference in the terms of demand because the anecdotal evidence we get is Bombay demand has recently been very good because of the government policy. Is there any geographical dispersion you see in your portfolio?
- Girish Kousgi:** Not in many cities because cities which are predominantly dependent on developer, only there we see demand is quite less. For example, Bombay, is less compared to what other cities. So all other cities because we have blend of both independent houses as well as apartments. Bombay is the only city probably where 99% or maybe 100% is apartments. Since the builder market has to still evolve after COVID, there is slight delay, but however, our share from Mumbai per se is not that big.
- Antariksha Banerjee:** The next question I had is on your borrowing mix and followed by the consequence of your capital raising plans. So I know historically the motivation behind us trying to raise capital was to reduce the leverage on the balance sheet and to some extent even comfort the lenders. If I look at your borrowing mix, you have been drawing down more from NHB and the market borrowings have actually sharply dropped. So what are your thoughts on capital raise now that you think that provisions are adequate, the stress on the book will not surprise adequately and the demand will still take say 2-3 quarters more to come back. But on the other hand, your borrowing mix is tilting more away from the capital markets. So are you getting these questions from lenders as in when the capital raise will occur and the leverage will reduce or is that not a problem and you can push that away because demand is not there?
- Girish Kousgi:** With every passing quarter, our DER is improving. Now it is 7.75. So not anymore will this question be raised by any lenders because first of all, there is enough and more liquidity; number two, there are not many players who can actually take credit. And therefore, number three, with every quarter our DER is coming down. So now it is 7.75. I think that is not a challenge either for us or for the lenders, number one. Number two, if you look at our CAR, we are pretty comfortable. So now it will be close to 25%. So we are pretty comfortable on CAR. So on both DER and CAR, we are comfortable, but we still have plans. So we will raise some capital that we will decide probably in Q4.
- Antariksha Banerjee:** But if the urgency is not as much as it was, say probably last year, is that a fair reading?
- Girish Kousgi:** Actually last 2-3 quarters, there was no urgency.
- Antariksha Banerjee:** That is helpful. And just one last thing, you have given a lot of data points, but just a 30 DPD number as a stage 2 number on a quarterly level if you could disclose that would be helpful.
- Girish Kousgi:** See now you have 660 crores.

- Antariksha Banerjee:** That is 30 DPD.
- Girish Kousgi:** Not 30 DPD. This is a combination of all.
- Antariksha Banerjee:** I was just asking how much would 30 DPD, because the more aging buckets it is okay, but just to get an highlight of the early stage delinquencies just after the distortion has....
- Girish Kousgi:** I will give you some industry benchmark and I think that probably might help. See, whatever is the NPA, so companies which are predominantly focused on HL and a small portion of LAP, that is not home, so they will have a total delinquent pool in the range of 16% to 17%. And 70:30 mix would have 20 and a 60:40 would have more than 20 and if NBFC is focusing only on LAP, then it will be 25%, correct? Now, 30 plus would be almost 70% of the delinquent pool. When I say delinquent, it is SMA-0, 1 and 2.
- Antariksha Banerjee:** Any overdue basically?
- Girish Kousgi:** Exactly. 1 to 30 will be 70% and SMA-2 would typically be around 10% and SMA-1 would be around 20%. So all I can say is that our numbers since the delinquent pool is very small, the mix won't change, is all I am saying, mix won't change. But we are the lowest in the industry.
- Antariksha Banerjee:** So, roughly 70% of the 660 crores would be the 30 plus, that is the broad way to think about it.
- Girish Kousgi:** It is a not a right comparison for the simple reason there was morat for 6 months. All the regular customers who wanted to pay, they have not any which ways moved bucket. Some part of regular customers and all the delinquent customers, all delinquent customers they opted for morat obviously, most of them and some part of regular customers they opted for morat. Now since there was no bucket movement, you only have one month. So based on one month these ratios it would have skewed. So obviously you can't go by this one. Probably you should look at this 30 plus, 60 plus, 90 plus maybe after 3 months. You have to give that one cycle, one cycle is 3 months because that is when you will see a case becoming NPA or not. So with only one month of repayment, it is very difficult to understand. The reason also is this because when new customers who have opted for morat when you capitalize the interest, you are also increasing the EMI. So when you increase EMI and if there is what happens is that because of a small amount, let us say EMI is 12,000 and the new EMI is 12,400, so the case might be in 1 to 30 bucket because of a short payment of Rs. 400. So Rs. 400 is not actually SMA-1. Technically, it is SMA-1, but in terms of ease of collecting, it is lot more easier to correct because these customers are regular customers and they were not able to pay the shortfall for the month of September and therefore they are appearing in SMA-0. And therefore, I am saying many things have happened, one is morat has happened. Number two, it is a mix of both regular and delinquent pool. Number three because of EMI increase because you can't increase tenure beyond 6 months. So once you give morat to the customer and if you have to keep the same

EMI, you have to extent tenure starting from 15 months to 30 odd months depending on the balanced tenure and the EMI amount. And therefore, there are lot of cases where customer has been regular in paying but to the extent of increase the risk shortfall and therefore these cases are in SMA-0. So for example collecting entire EMI from SMA-0 customer and collecting only the shortfall of Rs. 300- Rs. 400, there is a big difference. And therefore, I said, no, we should not look at this 660 or the SMA pool now because these may not give complete picture. After 3 months, then if you look at this entire SMA pool that will be indicative.

Antariksha Banerjee: And this collection efficiency of 93% in September, since you have interacted with your customers, so basically what is your sense of how durable would that be because these people would have saved some over the last 6 months. Would it have made it easier for them to clear of the September dues and if probably income is not come back to the extent, they may find it more difficult in October-November-December, do you get that sense or do you think once they have cleared September, they should be able to start paying regularly from hereafter?

Girish Kousgi: Once you have cleared September, I think 90% you are home, I will put it that way. So still 10% you have to watch for next month and maybe if you are through with October and if suppose let us say my October collection is 93 or more than 93, then almost 97% I am through. I want to wait one more month to see that 3%. I am only saying we need 3 months. If any customer pays for 3 months after the morat period, then you can assume that the customer is not going to default.

Antariksha Banerjee: 97 you said what? I just missed it.

Girish Kousgi: I just give you a percentage. For example, September collection efficiency was very good which means 90% of problem we have addressed. Suppose if I have same collection efficiency in October also, that 90 will become 97%, because there are only 3% problem left. And if I see for the third month also, the collection efficiency which is more than 93 then I can say I have addressed all the issues. Only thing is our engagement level with customers is so intense that we are able to see very high collection efficiency because we were constantly trying to keep our customers away of both pros and cons, we kept on, we started sending awareness messages, SMS Blast, mailers to all the customers. We covered all the customers through wire, I think that really helped us.

Moderator: Thank you. The next question is from the line of Amit Ganatra from HDFC Asset Management. Please go ahead.

Amit Ganatra: Sir, you mentioned that next couple of quarters NPAs will go up. But how should we view the provisions because you already have made some excess provisions. So now once NPA actually go up, will you be utilizing those provisions, or these provisions will not be utilized you will make provisions through P&L. How should we view the provision cost?

- Girish Kousgi:** As of now, we have provided 86 crores towards COVID which is more than required. So we don't anticipate our NPAs to grow drastically. Actually, we have enough cushion available with the provisioning amount. So NPAs will go up, definitely it will go up. But it will not be substantial. It will be to the lesser extent compared to what industry is going to witness and therefore we are holding much higher provisioning on COVID.
- Amit Ganatra:** So effectively you are saying that whatever NPA goes up, the amount that you have set aside will be adjusted first.
- Girish Kousgi:** More than enough.
- Moderator:** Thank you. The next question is from the line of Gurpreet Arora from Aviva Life. Please go ahead.
- Gurpreet Arora:** Sir, in terms of disbursements for this quarter, what percentage of that would have been the bunch of effect from Q1?
- Girish Kousgi:** I would say zilch, nothing at all.
- Gurpreet Arora:** And what percentage would have been due to balance transfer in this?
- Girish Kousgi:** See, our BT has always been less than 20%, out of suppose let us say if I do business of 100 crores, what we are going to do business from BT in is about 20%. So I think that number has not changed drastically.
- Gurpreet Arora:** Fair enough. My next question is that out of the salaried moratorium pool, I mean what sense are you getting that, what is the reason why this particular borrower segment is looking at moratorium. Are there job cuts? Are there salary cuts? What have you been able to ascertain there?
- Girish Kousgi:** I will answer this question. But now that issue is behind us because we have seen September collection, we have seen largely October collections as well. But yes, when we actually checked on customers why they opted for morat, it was mainly because of uncertainty. So we have close to 5% of cases which was due to either cut in pay or job loss. Job loss is 0.5% and cut in pay was 4.5%. I think now all that is behind us because those customers, some of them have found jobs, some of them they are still very comfortable paying the EMIs in spite of pay cut. So this is the number, 0.5 is job loss and 4.5% was pay cut. But if you look at September collection, I think it has been pretty good. All these percentages and challenges are behind us.
- Gurpreet Arora:** So my next question is that, in terms of sourcing, DSA contribute 58% to 60% of our sanctions. So are we looking to maintain this composition or are we trying to change anything over here?

Girish Kousgi: So this mix has always been in the range of 50% to 55%. So it is actually not by design, it is not by design. The reason I will tell you why it is not by design, because we don't see any incremental risk because of DSA sourcing because we only confine DSA sourcing to loan origination. Processing and underwriting and all critical functions are managed by our staff and therefore it is not by design. So going forward, you will see 50:50. We don't see any risk in DSA sourcing, because DSA, it is equivalent to a lead generation that's all. Nothing beyond that. So typically how the DSA model work with us is that DSA will source a file and lock in the file with couple of documents and then we take over the customer from that point in time and we complete all the process. So every single customer is met by our employee. Typically what happens outside is that DSA would login the site, takes the customer through the entire process, it go through the entire sanction process, does documentation, does disbursement. So DSA is involved right from enrollment till disbursement and only after disbursement company will come into picture for servicing. In our model, it is only the first step. DSA will only originate after that the company takes over and therefore, we don't see any incremental risk and therefore we have not put a cap on DSA sourcing, but however, the mix has been 50:50.

Gurpreet Arora: So sir, anyway you are saying that in your case there are no merits to increase the internal sourcing than external?

Girish Kousgi: We have not put a cap there. And therefore we have just left it fluid.

Gurpreet Arora: Fair enough. Sir, last question. Any steps are we taking to expand our deposit franchise?

Girish Kousgi: It all depends on the cost of savings deposits. As of now, there seems to be some challenge in cost of raising deposits and therefore as of now there is no plan to substantially increase the deposits.

Moderator: Thank you. The next question is from the line of Jigar Mistry from Buoyant. Please go ahead.

Jigar Mistry: Sir, my question is on the collection efficiency. So the way it is defined, it is the total collection received in the month of September divided by total billing for the month of September?

Girish Kousgi: Exactly, correct.

Jigar Mistry: Now, humor me for a minute sir. Now imagine I am one of those 14% where I was worried that my job will go in COVID period. So I have taken both the moratoriums. At the end of August, I realize that look my job hasn't gone. I have received increment; I want to come and clear the all the 3 months of outstanding installment that were there. That in theory it will be taken as collection, correct and therefore counted as part of the 93% which the company reports. The question is do you think the number of such people are large, as in if you were to compare that

14% as number of people and amount outstanding, will the 7% more or less be of that 14% altogether?

Girish Kousgi: No, the number may not be 7%, but we have seen lot of customers who had opted for morat and later on they have come back and they have paid the money and they have requested us to adjust towards the principal amount, that means morat is still there. Whatever money they paid, they have adjusted towards the principal amount, so their principle has come down. So we have seen lot of customers who came back and paid. So talking about this 14%...

Jigar Mistry: If you remove such prepayments, what would be the collection efficiency?

Girish Kousgi: During morat period, the collection efficiency is based on non morat cases because customers who opted for moratorium and if they make a payment, that amount is excluded because that will go into prepayment bucket, not in normal monthly EMI collection bucket.

Jigar Mistry: No sir, for the month of September, when they made the payment...

Girish Kousgi: Just to put it in other way, those who opted for moratorium, they started paying. Some of them, they have paid earlier also and they have paid for September also. So other regular customers they were paying earlier and they have paid out of say 100 customers, 93% of the amount has been repaid. So overall collection efficiency during September as against the demand was 93%. This includes both regular as well as morat customers.

Management: Just to answer your question, one last clarification. In the month of September if x amount was the demand, 93% of x has been collected which means 7% is delinquent.

Jigar Mistry: I am sorry to harp on this because it is such a critical number. But that 93 you are saying will not include prepayments?

Girish Kousgi: 93 will not include pre-payments because pre-payment is over and above paying the EMI. For example, if I am the customer, I have two choices. I pay September EMI and if I pay extra it will go to my principal amount reduction.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Sir, my question was largely on other OpEx, so in 1Q our cost-to-income ratio had fall down to 11.2 and it has broadly remained at the similar levels for Q2 as well. So going ahead particularly, you see any increase in other OpEx or it is likely to sustain at the current level?

- Girish Kousgi:** I was clarifying. This 93% excludes pre-payment. So as a customer if my September EMI is due, if I make any payment, first it will go towards adjusting September EMI and any excess only will go towards principal reduction. Hope I have answered your question.
- Sanket Chheda:** And I just wanted to have another question that you were saying that 86 crores of provision is adequate now even if the slippages materialize in Q3 or Q4 is that right. So even if delinquencies will rise, GNPA might go up, but we are adequately provided as of now. So there won't be any material increase in provisioning in coming quarters, is that assumption right?
- Girish Kousgi:** I think we are holding enough and more towards COVID, at least for next, for this entire COVID, next 2-3 quarters we are holding enough provisioning.
- Moderator:** Thank you. The next question is from Subhradeep Mitra from UTI Mutual Funds. Please go ahead.
- Subhradeep Mitra:** I wanted to understand that of the 7% of the customers who have not paid in September, what would be the breakup of salaried and SENP out of that?
- Girish Kousgi:** As of now, we have seen the mix, there is no change in the mix, for example, our portfolio 70% is salaried and 30% is self-employed, so we see a slight increase in SENP, but the ratio is by and large the same.
- Subhradeep Mitra:** Sir, my second question would be, what is the AUM that you are targeting for end of FY21 and in that direction given that you have already mentioned that in Q4, there is a plan for the equity raise, so what is the amount of capital market borrowing that you were looking for in the next 6 months?
- Girish Kousgi:** No, we haven't really given a thought to that. We had plan of raising if at all we have to raise in Q4. So at this point in time, we are pretty comfortable on both DER and CAR, so at this point in time, we are not very keen, but yes, if at all we have to raise, we will raise in Q4.
- Subhradeep Mitra:** And any capital market borrowings that you are looking for in the next 6 months, any plan for that?
- Girish Kousgi:** Borrowing in the sense, market borrowing you are talking about?
- Subhradeep Mitra:** Correct?
- Girish Kousgi:** No, because we define market as both NCD and CP. If you are referring to NCD and CP, yes we have plans for NCD as well as CP as a continuous process, but for equity, as I told we will plan only in Q4.

- Moderator:** Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.
- Swechha Jain:** Sir, actually most of my questions are answered, I just had a bit of confusion between the two numbers that you were discussing, one was the 660 crores and other was the 210 crores. Now, what I understand is, I want to know whether 210 crores is now a subset of that 660 crores, a smaller number would be a subset of that 660 crores?
- Girish Kousgi:** Yes, it will be subset.
- Swechha Jain:** And 210 crores were the morat 1 and morat 2, right?
- Girish Kousgi:** 210 crores was estimated to in the month of March. For that quarter, asset classification benefit is given only to 210 crores because one month SMA-2, if those customers don't pay one EMI, it will become NPA whereas SMA-1 if you don't pay, it becomes SMA-2 and not NPA and that is why only on 210 crores we provided 10%.
- Swechha Jain:** And sir, these 660 crores would also include some portion of those cases who had taken morat 1 and morat 2?
- Girish Kousgi:** On the cases morat 1 and morat 2, the outstanding as of 30th September, all.
- Swechha Jain:** And that number is, sir?
- Girish Kousgi:** 660 crores.
- Swechha Jain:** And sir, just wanted to understand in terms of our corporate agency that?
- Girish Kousgi:** Basically 1,444 crores has become 660 as of September end.
- Swechha Jain:** And this includes everything, SMA-1, 2, 0, morat?
- Girish Kousgi:** Everything.
- Swechha Jain:** It includes everything basically, okay?
- Girish Kousgi:** Yes.
- Swechha Jain:** And sir, with respect to our corporate agency license that we have, I just wanted to understand how does it fit with our overall long-term strategy of the company and how do we plan to take this ahead?

Girish Kousgi: See, we are working with two insurance companies. What is more important for us is that our customer's life has to be covered and the property has to be covered. To that extent, we are committed, and we will try to bundle on those customers with insurance options.

Swechha Jain: And just one last question, sir, on an average, what would be our repayment and the prepayment rate if you can bifurcate both of these separately?

Management: Because of the morat, the option is available with the customers to be whatever he wants to pay whenever he wants to pay, so we cannot classify that amount as if repayment or the repayment for the next 3-4 months if the account becomes regular, because he always have the option to pay and regular in his account without opting for the longer tenure, so this classification cannot be derived.

Swechha Jain: And sir, historically what the rate has been, will you be able to share that, sir?

Management: The progress will take another 4 to 5 months to come on normal scenario.

Girish Kousgi: Now it is difficult to say that. Pre-COVID level, I think if you look at prepayment that will be very small amount. If it is a foreclosure, it will be obviously BT. So prepayment as a percentage 10% to 15% of total prepayment and foreclosure put together that is if 100 crores is the amount which is the combination of both prepayment and foreclosure, significant portion will be foreclosure which means through BT out and the balance will be prepayment because prepayment will be very small amount.

Swechha Jain: So overall, 10 to 15% historically has been the rate, right, sir?

Girish Kousgi: Yes.

Moderator: Thank you. The next question is from the line of Bunty Chawla from IDBI. Please go ahead.

Bunty Chawla: Sir, just one clarification, on the previous question as you said the collection efficiency is 93%, can we just say that 7% of the total books have not paid a single EMI from April to September, is it my analysis right?

Girish Kousgi: No.

Bunty Chawla: Can you give that number that percentage of books who has not paid a single EMI from April to September, if possible?

Girish Kousgi: Now, for me, the risk is September only because all the buckets have moved. Customer has also morat, customer not opting for morat has paid, so I have to see the September collection which is 93%. So 7% of customers, they have not paid in September, till the last date of September,

which means we have to collect in the month of October from September dues. This will be in October to 7%.

Bunty Chawla: And sir, as you have said there will be still competition from the bank side, next two quarters will remain, so what will be the number on the AUM growth we can take for the full year FY21 as we have seen in H1, it has come down to 6% for full year what should be the number?

Girish Kousgi: The competition was there in the past, even now it is there. It will be there in future, so that is something which is part and parcel of business. So the asset was what you are seeing now on a YoY is about 10%. I think going forward, this number should slightly improve, not drastically, slightly should improve because the demand is slowly coming back in every passing months, so the increase also should be slightly better.

Bunty Chawla: And lastly, as you have said that there could be some inch up, not much, but slight inch up, so on a conservative basis, can we say we should be approximately 1% gross NPA by end of FY21 and it should move to 0.75% which is current level by Q2 FY22, is this assumption right?

Girish Kousgi: We do not give guidance on either business or NPA, all I can tell you is that in next 4 quarters, we will be back to 0.8.

Moderator: Thank you. The next question is from the line of Sakshi Goenka from Alchemy Capital. Please go ahead.

Sakshi Goenka: Sir, pardon my ignorance, actually I just wanted a clarification on the table which you have provided, this 660 crores number which used to be 1440 crores, sir it is fair to assume that this 660 crores are those customers who have either not paid their September installment and some installment prior to March which is the ex of the morat period, is that the right understanding?

Girish Kousgi: No, for example, if 1,444, all of them have adopted for morat and if they have not paid any amount in between, the amount would have remained the same. That is the way to read.

Management: 780 out of for example 1440 minus 660, there is 780 crores they have paid the installments and it has now moved out of SMA, so the remaining 660 crores is either in the SMA-0, SMA-1 or SMA-2 as on 30th September.

Sakshi Goenka: Sir, this period is ex of the morat period, right. It does not include the morat collection?

Management: Because of the collection or on account of collection, 1440 has become 660, means 780 crores, there is a repayment subsequently after first March and these accounts have moved out of SMA. Even though they opted for morat, but since they have paid the amount, it has been taken out of moratorium.

- Girish Kousgi:** The other way to read is that your 1444 has come down to 660, so the 660, it can be in SMA-0, SMA-1, SMA-2.
- Sakshi Goenka:** And SMA-2 right now and SMA, a customer who is 60 DPD due that means his 2 installment dues, so his September installments must have been due and his Feb installment would have been due, is that the right thing?
- Girish Kousgi:** No, SMA-2 is basically as of 30th of September, the bucket has not moved which is less than 90 days. So 0 to 1 is SMA-0, 1 to 30 is SMA-1, so that is how the bucket flows. Anything which is more than 90, 90 and above is NPA, so all these accounts are either in SMA-0 or 1%, 61 to 90 is SMA-2 bucket.
- Moderator:** Thank you. The next question is from the line of Abhisar Jain from Monarch AIF. Please go ahead.
- Abhisar Jain:** Sir, just wanted to know that in the salaried class of customers, for us which is around 70%, would you be able to indicate what is the mix between the government salaried and the private institution salaried customers?
- Girish Kousgi:** 50-50.
- Abhisar Jain:** And sir, would that ratio has remained same over last 3 years or 5 years?
- Girish Kousgi:** At the portfolio level, this ratio is 50-50. If you see initial part of the years, SENP was quite less and salary was quite more, but within salary it was almost 50-50 only, so this has not changed much, maybe 51, 49, 48, 52, so it has not changed much.
- Abhisar Jain:** And sir, even on the quality in terms of the NPA within those two buckets within salaried, is it like the similar or do you see differences as such now or before?
- Girish Kousgi:** It is similar.
- Abhisar Jain:** And sir, the other question was on the branch network expansion, so we had mentioned in the PPT that we are still looking to add 10 branches in FY21 since we have not added anything in the first half because of COVID, do you think that we are on track for the 10 addition and which geographies will that be?
- Girish Kousgi:** Suppose this COVID is out, if COVID is over by December we will still open 10, suppose if COVID goes on till February, let us say mid Feb, then it will be difficult. So we still have 6 months' time to take a call whether we can 10 or not. At this point in time, yes we can, but if COVID goes beyond that, then it will be difficult.

- Abhisar Jain:** And sir, last one on that only, just a follow-up, sir what will be our non-South branches out of 198 branches that we have?
- Girish Kousgi:** Non-South business is about 30%, number of branches found, I will tell you. We have totally 200 branches.
- Management:** Almost same number, business is about 70-30, 70 South and 30 non-South.
- Girish Kousgi:** Yes, it is about 67% to 68%.
- Management:** Yes, South branches are overall having more business very slightly which is 4 to 5%, 35-65.
- Girish Kousgi:** I will give you the number in couple of minutes.
- Abhisar Jain:** I will just move to the next last question. Sir, over next 3 years, sir what will be our strategy? Would we want to still remain 70-30 on South and non-South or would we want to diversify a bit from South?
- Girish Kousgi:** To be very honest with you, I think we will relook at strategy after COVID because we don't know what is the impact of COVID with respect to business class, whereas salaried we could assess the impact, but not on business class. In terms of branches also, 70% is South and 30% is non-South. Business also 70% is South and 30% is non-South. We will give you a strategy after COVID which is about may be 2 to 3 quarters from now, but having said that our focus is on salary, we will be keen on doing self-employed business in good markets. When I say good, good in terms of repayment, so we are agnostic in terms of geographical presence, but we are very keen on the mix depending on the potential and repayment history of this particular geography.
- Moderator:** Thank you. The next question is from the line of Punit Bahlani from HDFC Securities. Please go ahead.
- Punit Bahlani:** I just wanted to know like if you can give some color on the cost-to-income ratio like where do you it going because in the previous quarters, you had mentioned that you will be like you are eyeing for some improvement in digital infrastructure and along with that increase in branches which of course, you answered like in the near-term it is not going to take place so just some color on that?
- Girish Kousgi:** Now, if you look at cost-to-income ratio, I think in ideal state it will be in the range of 15 to 16%. As of now, it is less because of the COVID, otherwise it will be in the range of 15 to 16%.
- Moderator:** Thank you. The next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: This is Sonal Minhas. Sir, I just wanted to tie a few numbers together. On your balance sheet, there is a provision on nonfinancial liabilities, so it is around 102 odd crores, I understand that includes provision for taxes as well as for bad loans, so this is roughly around 0.5% of your overall book, just taking ballpark number, so this is the overall provision pool assuming this is for NPAs at a whole for the argument, is this sufficient to take care of the 660 crores of the restructured pool that we are looking at right now and that is number one. And secondly, what gives you the confidence that this is roughly around 100 crores, 86 to 100 crores of provisions that you have built in will be sufficient to take care of this 660 odd crores of the restructured pool, so just want to understand the line between the two, how do you measure and that is why how you say that this is sufficient for me, so your line of thought on that, that is all?

Girish Kousgi: So if you look at the entire industry, delinquent pool is about 20%. So the portfolio is 10,000 crores, 2000 crores is the delinquent that is one DPD and above, so the number is half of that percentage. So today, if I refer to 660, 660 is not the pool to be restructured or 660 is not the pool which will become NPA, this is only delinquent, that is SMA-0, 1 and 2. So typically what happens is that for the industry, if Rs. 100 is the one DPD, NPA will be 2. Now, for us our NPA is 0.72, so you can back calculate what will be the opening. So this 660 crores is not the pool which we will restructure or it is not the 660 we will move to NPA, yes, some might move to NPA, so some will be right back from NPA to regular as well, number one. Number two, today if you look at, in last 3-4 quarters, our asset quality is stable. Even in this quarter, our NPA has come down from 0.75 to 0.72. Even if I add deemed NPA, suppose if there was no Supreme Court direction, then my NPA would have been 0.78 which means 12.5 crores got added to NPA in spite of all this moratorium and with the large pool of SMA 0, 1, 2, whatever we had it as an opening balance. And therefore, I am saying 86 crores provision what we are holding, at the first stage which will, there is hope of NPAs going up to beyond 70 crores. Today, our NPA is 150 crores. On a book of 20,825 crores, our NPA is 150 crores. Even if you assume that it will go by whatever percentage, we are holding enough and more cover.

Sonal Minhas: Sir, a follow-up question on this one and I think this is just trying to understand how may be large other peer banks work, if I were to do a stress test today and pardon my understanding that, let us say, this entire 670 crores become NPA that I am assuming it will not, but let us assume it does become, the provision pool is not sufficient to take care of this amount for sure. So going further like, is there a mechanism wherein the provision pool is buffered up and that becomes a question for any macroeconomic black-swan events like COVID going ahead in the future because right now I understand you are working very close to where you have been and your asset quality is good, therefore I think you have that confidence that this is sufficient to me, but assuming the words, would this provision pool be buffered up, so that, let us say, if things go beyond your assumption, the provision pool is more than enough to even take care of may be 2%, 3% NPA if at all that kind of a situation arises, I am just opening an argument, that is all?

Girish Kousgi: Basically and I will address your question, definitely I appreciate this question, it is not an argument, it is only clarification. See, one will be, it will be as a percentage only 2% becomes NPA, so that is what history tells and this is the average for the industry. So if there is Rs. 100 which is one DPD that is 1 plus I am telling; it can be any. From 100, it can be at any bucket, only 2% becomes NPA. Now going with the industry average, our average is quite less than that and if you take 2% of 670, it is 13 crores, the number is much lower than that. I am not presenting, it is not the guidance, I am only giving you the industrial benchmark. If you apply 2% on that pool, it will be less than 13 crores, may be 14 crores, number one. Number two, 2-3% we never thought of NPAs at that level at all, so what we are able to think on those lines, I will give the calculation for you. All you saying is that if you see what is the NPA and what is the cover they have, I think you will get a, you will be very comfortable looking at our numbers whatever they have provided and what is the NPA level. Our NPA is in the level of 0.74-0.75 and what is the amount is which means our NPA is 150 and provision 86 crores which is close to about 60%. This percentage is quite high. In fact, some industries which ask why have you provided more, do you see any history in the asset book, I think there is a reverse thought as well. We feel that we are pretty comfortable on the coverage and we don't anticipate our NPAs to go up drastically.

Sonal Minhas: Sir, I appreciate that, but I think our NPA started going up even before COVID and there was a systematic slowdown in the industry because of which I think the NPAs went up from 0.4% to 0.7% even before the COVID period, so I think the asset quality has been spot on I think it is not even deteriorating, the point that when one is more, so to my understanding kind of an approach, which is in reaction to what you see in the industry whereas the other if I may use, this is a word is more like a smoothening of the NPAs or the smoothening of the account because you provided for things much before their anticipated time, so I think for the last 5-6 quarters, the NPA is going up, have happened even before COVID and therefore I wanted to ask this from a more longer term perspective?

Girish Kousgi: The amount what we have provided will take care of any shock with respect to NPA increase.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara. Please go ahead.

Ritika Dua: Sir, just one clarification on the capital adequacy if you can, the movement on a quarter-on-quarter basis?

Girish Kousgi: So last quarter and this quarter, what is the movement, right?

Ritika Dua: Yes, sir.

Management: The only thing is the movement in that one is the undisbursed sanction 18.59% to 24%, the capital adequacy has improved.

- Ritika Dua:** Yes sir, I am aware of that, just wanted to know the reason for such a sharp increase quarter-on-quarter?
- Management:** The main thing is the sanction the undisbursed amount will have the risk-weight of 50% for the capital adequacy. On account of COVID breakdown, there was a sanction, but no disbursed amounts were there. As we have explained earlier, we were shut down in the April as well as May month, so this disbursement which were sanctioned every year as well as the fresh sanction that the disbursement has not taken place either the office close down or any reason has to be kept in the books with risk weight of 50% which has reduced the capital requirement, so that is why the adequacy has been come down. Now, all these have been disbursed, the disbursed sanctions have been come back to the normal or which means slightly higher, so that is why capital adequacy has improved.
- Management:** So what you are saying, earlier out of the lowest sanction, whatever unsanctioned portion also we have made capital provisioning, now over the period of time, last 4 or 5 months, all these loans get into disbursement and the undisbursed portion has come down substantially because of that our CAR has improved.
- Ritika Dua:** Sir, may be from this particular quarter, actually a large part of the last quarter sanctions have been disbursed?
- Management:** That is why if you go back and see the last figure, it was 22.26, it has come to 24.77, in between June it has come down to 19.56 only because of the COVID.
- Ritika Dua:** Sir, and the second question, while MD sir has already shared on his view on how margins would normalize, but if you could just may be kindly share what are the incremental yields which are panning out because on a static basis, the number still remains very high, so is it something that maybe the S1 category loans are more prone to BT or I believe, we thought that maybe the S3 category should be more prone to BT because that is where the differential versus what is there in the market would be much higher, so if you can combine that question with what is the incremental yield on advances?
- Girish Kousgi:** It may not be made up because the assumptions cannot be done in this juncture because as we go and do COVID related matters are there in H1 and H2 whatever be the pending approval, we cannot come to a conclusion, probably as I told that we will have to wait for next 3 months to see how the movement is there, then we can call because it is just COVID is over and things are coming back to normal it has not fully gone, there are areas till the implications are still there, so we don't come to **(Inaudible) 1.29.29** anything may be this season or that season, we want to wait and see for another 3 months.

- Moderator:** Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.
- Nirmal Bari:** I have a couple of clarifications to ask. One is on the collection efficiency, when we say 93% collection efficiency, would that include the prepayments and the foreclosures as well?
- Girish Kousgi:** It doesn't include.
- Nirmal Bari:** It doesn't include the prepayments. The second clarification was on the 780 crores, that is the difference between 1440 and 660 crores, would it be fair to say that this 780 crores have cleared all their EMIs of the past 7-8 months?
- Management:** That is correct, all the overdue outstanding as on 29th February has been cleared in those accounts and they are out of the SMA.
- Nirmal Bari:** As of 29th February, those have been cleared, not as of 30th September?
- Management:** Those accounts, they have come out of SMA though they have opted for morat as on 29th February or 1st March, subsequently they have paid the amount and as on 30th September, there were no arrears in those accounts, that is why it is out of that 1440.
- Nirmal Bari:** Next thing is, if you can, I missed the incremental cost of funding if you mentioned it, so if you can state that bucket wise as in from the NHB, from the banks and from NCDs and CP, what is our incremental cost of funding? And secondly, if you can state why are we focusing more on bank borrowings when we are so highly rated and we can easily get far more funding from NCDs and CPs at relatively lower rates, so if you can comment on that as well?
- Girish Kousgi:** So our incremental cost is 7.1, so we keep reviewing all the cost of borrowing from different sources and then we take a call. In last two quarters, we found that the bank borrowing was coming at much cheaper than NCD; however, this quarter and next quarter, there will be scope for raising NCD, so we will do that.
- Nirmal Bari:** Our average cost for the previous quarter was 7.1 and the incremental cost was also the same?
- Girish Kousgi:** The incremental cost will be much lower than that.
- Nirmal Bari:** So what was that?
- Girish Kousgi:** The incremental will be about 6.54.

- Nirmal Bari:** And the last question I have is on the rate reduction that we have done recently, it was about 110 basis points at the lower end of our rates bracket, so how do we see the yields panning out as in the next 6 months, what proportion of loans will get repriced to these lower rates?
- Girish Kousgi:** I have mentioned this before as well, we will be maintaining NIM of more than 3 and spread of 2.4.
- Nirmal Bari:** But I just wanted to know what proportion of loans get repriced in H1 and what proportion get repriced in H2, I know that Q1, there is relatively higher proportion that gets repriced, but would it be possible to get this number?
- Girish Kousgi:** No, this number is dynamic, so what we do is, we always give kind of guidance on NIM and spread, so we will maintain spread of around 2.4% and NIM of 3, so today's NIM is quite high, but that is not sustainable, so we will maintain more than 3 and 2.4 for spread.
- Nirmal Bari:** And now that our rates are quite competitive and even when compared to the larger banks and all, the gap is back to 70-80 bps only, so will it help in controlling the BT, are we already seeing some trends in October or not?
- Girish Kousgi:** Definitely yes, we are able to retain more customers than before because of the competitive pricing.
- Nirmal Bari:** Finally, again on the collection efficiency, if we are near the end of October, so is the number in October so far been higher than September or what has been the trend over there?
- Girish Kousgi:** We will get to know this number only on the last day of October because we are talking about collection. If the instrument bounces in October and gets collected in the month of October, that we will know only by the last day of the month, so it will be difficult to give that number corresponding that.
- Moderator:** Thank you. The next question is from the line of Pavan Kumar from Ratna Traya Capital Partners. Please go ahead.
- Pavan Kumar:** Sir, is my understanding right if that 210 crores out of the 660 crores bucket, you are saying our SMA-2 they won't be eligible for the restructuring part of?
- Management:** They will not be eligible for this because restructuring guidance is clear the account t should not be more than **(Inaudible) 1.35.35** so because he has opted for morat and these accounts **(Inaudible)** they will not come under restructuring.
- Pavan Kumar:** But for the 210 crores if they do go into an NPA over a period of or what period do we provide for those assets?



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Girish Kousgi: This 210 crores, it is a significant portion. So actually what would have got added to NPA as of Q2, 12.5 crores, so there will be some small portion out of 210 lined in this 12.5 crores and the rest is collected.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Management: Most of the points have been covered and the MD has explained in the beginning itself about what has happened in the last 6 months and what is the way forward for the next 3 or 4 quarters. And the worst part of COVID behind us and as we informed in the Q1 conference call that Q2 will be better than Q1, definitely Q2 has been better than Q1 and we are sure that Q3 will be much better than Q2 and hopefully but Q4 or the next by latest Q1 of next year will be almost reaching the level of pre-COVID sanctions and disbursements and AUM growth. And main focus so far are on asset quality and that will continue to be our focus area. Apart from that, since last month, we are also giving a lot of focus for business also and in the next couple of months, that will also improve and being able to have sufficient funds and very competitive rates and also we are offering customers one of the best rates at present and the business will definitely pick up and we will be able to contain our NPA levels. Slightly, there may be little increase, but by March end, definitely we will be able to bring it back at least to the level of the pre-COVID levels, if not my March, it is by Q1 of next year. With this, I would like to conclude.

Moderator: Thank you very much. On behalf of Investec Capital Services, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.