



ARMAN FINANCIAL SERVICES LTD.

“Arman Financial Services Ltd. Q3FY16 Earnings Conference Call”

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ARMAN FINANCIAL SERVICES LTD.



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MODERATOR: **MR. DIGANT HARIA – ANTIQUE STOCK BROKING**



Moderator: Good day ladies and gentlemen and welcome to the Arman Financial Q3FY16 Earnings Conference Call hosted by Antique Stock Broking Limited. As a remainder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Digant Haria from Antique Stock Broking. Thank you and over to you sir.

Digant Haria: Good morning everyone. We have with us the management of Arman Financial which is represented by Mr. Aalok Patel, Mr. Jayendra Bhai Patel and Mr. Amit, today they want to discuss the Q3FY16 performance and probably they will take you through some of the overall outlook on the business and on the company. So over to you Mr. Jayendra Bhai.

Jayendra Bhai Patel: Thank you Digant. Ladies and gentlemen, please accept my gratitude for taking part in the 3rd conference call for Arman especially today when lots of banks are busy in their results which are being declared right now and I am glad to know that all of you have taken time from your busy schedule to know more about operational and financial results for the Q3. I also welcome Shri. Amit Bhai who is the Whole-time Director and Shri Aalok Patel who is the Executive Director of the company. I am sure all of you had a chance to review our results and press release, if not I request you to go through it after the meeting if you are interested on the company's website.

The total assets under management, AUM of the company has grown from 110.53 crores on 31st December 2014 to Rs. 155.50 crores from 110 to 155 crores as on 31st December 2015, a growth of 40, almost a 41% growth. The majority of this growth came from microfinance business where AUM has grown from 56.38 as on 31st December 2014 to 99.84 crores as on 31st December 2015. A growth of 77%. The total income from operations for the 1st 9 months have increased from 20.87 crores to 28.11 crores an increase of 35%. The profit before tax for the same period has gone up from 6.78 crores to 8.18 crores, an increase of 21% and a profit after tax has gone up by 19%.

Let us talk about the disbursement, against the total disbursement of 168 crores for the entire last year we have achieved 198 crores in the first 9 months of this year. So looks promising at this juncture. We are right on target and we are confident on achieving our projections this year. While we are achieving operational growth let me tell you, that while we are achieving operational growth our profitability growth for a quarter-on-quarter basis is slightly lower. I assure you that this is a rare phenomenon and there are few reasons for it. I will try to go through those reasons and if you have any questions I am sure you people have all the liberty to ask for any questions that you might have. If I go through the reasons the higher cost of funding, higher branch operating cost, for all the new branches the company has opened and shrinkage in our margin due to RBI mandated reduction in interest rate due to a reduction in average bank base rate is the major reason for this. These are the 3 major reasons that are responsible. Ladies and gentlemen, that we also tell you this, the last point if I want to



elaborate a little more on this, that we are governed by the RBI policies and what we can charge to my borrowers is always linked to the base rates the 5 major banks offer. In nutshell I will tell you that without going into lot of equation details let me also tell you that if the bank base rate goes down by 1%, we are compelled to lower our interest rate down by 2.75%. That means when the base rate comes down by 1%, the spreads in micro finance comes down by 2.75%, that is the name of the game, it is not fair but this is not the right platform to talk about what is fair and what is unfair. We are governed by Reserve Bank of India and then that is about it. The rapid expansion also has added to our overall cost and cost of the new funds have added little more cost to it. Furthermore, the two wheeler margins are under pressure because of increased competition and lower industry growth. I assure you guys that this is a temporary phenomenon and we will reap the rewards of this expansion in the months ahead. I would also like to add that we have raised 5 crores in Tier-II category to help us further expand our business or our balance sheet. I would end by saying that this is a great time for microfinance. We are expanding and meeting our targets. There is a lot of government support for financial inclusion. I therefore request all of you to stay with us. You will see great days ahead. I thank you again and we will now open up this call. Thank you guys.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ankit Gupta who is an individual investor. Please go ahead.

Ankit Gupta: Just wanted to check with you the reason for quarter-on-quarter decline in disbursements in microfinance business despite of adding new branches in Gujarat as well as new branch in Madhya Pradesh?

Jayendra Bhai Patel: There has been a slight decline as Jayendra Bhai was mentioning regarding the Q-on-Q profit, although for the 9 months the profit inched up 21%.

Ankit Gupta: I am not talking about profits. I am talking about disbursements in microfinance business?

Jayendra Bhai Patel: That is a regular phenomenon, what happens is in November month if you look at last year also you will find it similar. In November month we actively are careful about our disbursements. In November month we disburse less than Rs. 12 crores, what happens is microfinance during the Navratri and Diwali season which is what we go through, lot of the loans go into consumption loans, when the festival season is good. So what we do is we actively try to cut the disbursement just to ensure that the portfolio quality remains. Mr. Gupta it is a very calculative move on our part because as you probably know that capital erosion has no room and we try to be very conservative lenders that way we are, that is our DNA and it has been the practice for so many years that whenever there is a festive season most of the loan goes for a personal consumption rather than for a business purpose and hence we try to be very careful in disbursement. In micro in October we disbursed about 15.7 crores and 12 crores in September and 16.6 crores in December and in January it is about 18 crores.



Ankit Gupta: And one more question, basically just wanted to understand the other expenses that has increased all the way highlighted in the press release because of addition of new branches. There is also Q-on-Q increase in employee cost, like if you can elaborate more on increase in employee cost as well as other expenses in detail?

Jayendra Bhai Patel: I think my employee cost has increased if I am not mistaken around 18%-20% which is lower than my overall increase in portfolio. The cost is in fact we are trying our best to reduce that, achieve some economies of scale and as the company's size keeps increasing a lot of the overhead cost, managerial cost and things like that decline, but overall employee cost is a function of your assets under management. So we try our best to reduce it. But the second thing is also as far as employee cost is that I mention those new branches that are being opened. I have about 15 branches which have overall number of clients of less than 1000, you know it about 700-800 at least clients before it reaches breakeven point. So I am hoping that once we cross 1500-2000 clients in those branches they will yield enough rewards.

Ankit Gupta: And if we talk about our new branches in MP, out of I think 17 branches have been opened till December 31st. So how many of the branches have been able to achieve breakeven till date?

Jayendra Bhai Patel: About 6 branches have achieved breakeven point, although I will have to look at the exact figures before I can tell you that. That is the reason send us an email and we will be happy to give you each and every details.

Ankit Gupta: Okay and one more question in the recent press release you had mentioned that we have received loans from SBI and IDBI. So how is that expected to lower our interest cost and what is the rate of interest being charged by those banks?

Jayendra Bhai Patel: Sir let me also elaborate little more on this that the time has changed a little bit. Luckily, let me also tell me being be the CEO and the Managing Director of this company is concerned, the things have changed in last couple of months. Earlier moving the resources was the prime concern that whether the bank will give us the money as per our expansion plans, that problem is now solved. Now banks are eager because of the balance sheet, because of the sheer size, because of the personal reputation and because of the vintage and the asset quality, blah-blah. We are taking the advantage of banks being eager. Now if you ask me personally, I am in a position to tell the bank that, no this rate is not affordable. I am in a position that you reduce the rate or I will go across the street and that said State Bank of India has given us 24 crores, the sanction came about 10 days ago at 11.8% with absolute **(Inaudible) 14.41** and we never had loan from any nationalized banks at 11.8%. At the same time the money that we have borrowed in the past 6 months-8 months ago we cannot change the interest rates on that sir, you know. So it is a mix batch but I am glad to tell you that this is the position and it is nice to be in such a position, that is all.

Ankit Gupta: And going forward how is that going to reduce our dependence on NBFC borrowing. I think NBFC borrowings has been at very high rate of around 14%-15%. So let us say one year down the line, SBI and IDBI sanction new facilities to us. However, our dependence on NBFC is



going to reduce and what will be our overall cost of borrowing, let us say 6 months-7 months down the line?

Jayendra Bhai Patel: Overall our cost of borrowing is around 14.5% right now and our target for at least for the next 6-12 months is somewhere around effective rate of around 12.5%. So we are trying to reduce by about 2% to be competitive. As far as the financial institution dependency goes, it is as Jayendra Bhai mentioned, if you wanted to fund your growth and banks are not available to lend you money, we had no choice but to go for a financial institution which are obviously little bit or much more expensive than banks. We have not borrowed from any new financial institutions this quarter and I hope that our dependency on financial institutions have steadily declines as we go on as we get more and more dependent on bank lending. But, I will also tell you the fact of life also, that sometimes what happens is unpredictably one month is so busy and sometimes you need money in a SOS basis and when you need money in that SOS basis you have no choice but to go the financial institutions where funds are readily available. Yes, absolutely we must plan ourselves. We do plan ourselves and we monitor our cash flows absolutely on a day today basis but sometimes it so happens that when you count on certain money and the banks being whatever the banks are, sometimes you do not disburse on the desired date. So the things got what I call it a JIT system, which is just-in-time, does not work all the time. So in that case we are somewhere dependent on the financial institutions.

Ankit Gupta: Can you say how is the progress on two years' loan cycle that we have started, how is that progressing and how has been our experience in that?

Jayendra Bhai Patel: We have absolutely no problem so far as far as our two year loans goes far and well under control, it is about 29% of our portfolio now is a two-year loan. So because the repayment cycle is lower in a two-year loan the portfolio increases likely faster than a one-year loan. So far we have no problems with our two year loans and just for your knowledge I guess or for the knowledge of the investors give, after the last RBI rate cut which happened on January 1st we have redesigned our products from a 12 months and a 24 months' tenure to a 14 months and a 24 months' tenure. So the reason for the 14 months is our endeavor is always to keep the installment amount lower for the customers. That is why we collect things on a biweekly basis instead of a monthly which lot of competitors are switched to in an effort to save on operating cost. But I want to keep the installment amount low. Now after RBI increased the one-year loan limit from 15,000 to 30,000 so we have adapted in increasing it to 18,000 and 24,000 but we wanted to make sure that the clients do not, we have too much of a burden as far as the installment is concerned.

Moderator: Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Sir if you can just highlight about how is the competition shaping up because it is now 6 months in the banking license were awarded to the small finance banks. So have you seen any competitive intensity reducing say either in Gujarat or in Madhya Pradesh or they have been just the way they are in the past? So have been your experience in these two states?



Jayendra Bhai Patel: Digant I haven't noticed a significant difference in the competition level in both of these states. On the MP side the competition is slightly higher than it was, Gujarat we are fortunate that we were one of the first movers, so we have a very large client base. So we have noticed it to a large extent. As far as the small finance banks goes, none of them have really changed anything. I think a lot of them are still struggling with meeting with the RBI guidelines for converting them in principle license into an actual small finance bank license. I think the larger ones are somewhat busy with IPOs and what not but other than that there has been no significant change as far as the competition is concerned.

Digant Haria: Sir we should be able to continue our good growth in the coming quarters also?

Jayendra Bhai Patel: Yes, moving into, as your client size matures also, you can service the same clients again with a higher ticket loan, so that is one aspect of the growth. The second aspect of the growth is finding new clients. So while the first part is a little easier to do, the later part in areas of Gujarat and MP are getting more difficult because of there has been a lot of players but I will give you just one example, we just moved in to the Kutch area of Gujarat by opening four branches. It is absolutely a wonderful place to be and there is only about 3 MFIs operating in that area right now. So therefore there are still places like that where if you go for a lower density of population it might take a little longer to grow your branch size. But if the competition is much lower and I feel the portfolio will be a lot safer with less competition.

Moderator: Thank you. The next question is from the line of Shankar V who is an individual investor. Please go ahead.

Shankar V: Sir what is the thought around opening new branches in South Gujarat?

Jayendra Bhai Patel: So as far as South Gujarat goes, I do not know if you are referring to Saurashtra region or actual South, but we just opened 3 branches in Valsad, Vyara and Chikhli. So in the past South Gujarat, around Surat side has been bad but these 3 areas have been very nice for microfinance with low overall concentration because of the low density of population and already we have started operations in, or started disbursement in 2 or 4 branches and I do not foresee any issues in those areas. Surat is yes, but we have intentionally stayed away from Surat because Surat typically has a little bit of a migration problem and lots of people from Odisha, these are the migrants and they are there for migratory work and so the season is over. So that is basically lots of MFIs are facing problems in that respect, so we have stayed away from Surat. But South Gujarat does offer an opportunity and this 3 branches we are working it closely, so that is further future expansion can take place there.

Shankar V: Sir in the South Gujarat how many competitors are there?

Jayendra Bhai Patel: Well, I do not have a ready-made list available but it is a crowded field, let me tell you. Gujarat again, wherever you go in Gujarat, Gujarat has a competition and Gujarat being an entrepreneurial state, all the MFIs are present and I will tell you that in Ahmadabad we have about 19 MFIs probably present. 16 MFIs and 3 NGOs are there operating in Ahmadabad. In



South Gujarat you have as much as 12 MFIs but all of them operate in different areas and different villages. So our goal is to go into areas where there are less than 4-5 MFIs operating in the villages. So if you go in to Valsad area there will be about 8 MFIs located in Valsad but not all of them operate in the same areas as we intend to operate.

Shankar V: And sir you did open a new branch in Indore in MP. So do you have any plans to open more two wheeler branches?

Jayendra Bhai Patel: Sir we already have a two wheeler branch in Indore. We are testing the margin. It is only about 2-3 months old branch. All the indications are looked at we should have a more presence in Madhya Pradesh as far as two wheelers is concerned but we are approaching very cautiously and that is the way we are, so intentions are there. We are going to look at it closely.

Shankar V: Sir how is Namra performing in Madhya Pradesh?

Jayendra Bhai Patel: Namra is performing well. I do not see any issues in MP, as I said that we are not a late mover but there were a lot of pre-existing MFIs before went in. So I do not think that you can expect a quick growth but about 21% of our portfolio is in MP right now with over above 25% of our client base is in MP. How that works is that initially when you give the first cycle loans those are lower. So as you keep, as your tenure in that state increases both your client base and the loan portfolio per client should increase. So it is going well. Also it cannot be as fast as we grow in Gujarat because of existing players already located in MP. But I will also tell you that my projections where disbursement of 180 crores this year for '15-16 combining both Gujarat and Madhya Pradesh and we are happy to tell you that, we will achieve that target. We might surpass this by 4-5 crores hopefully but we are right on the target.

Shankar V: And sir when you said that you cannot achieve the growth you achieved in Gujarat what is the reason behind that?

Jayendra Bhai Patel: I did not say that. I said that we cannot expect to grow as quickly as we grew in Gujarat just because in Gujarat we were one of the early movers. When we started in microfinance there were only 3 odd players in the market and especially during after the AP crisis, SKS one of the larger player had moved out of Gujarat. So with that speaking we grew relatively quickly. Our initial portfolio grew quicker. In MP since there is already existing players, RBI has these concentration norms if a person is borrowed from two MFIs, you cannot be the third lender and there are limits to how much money one player can have. So that is why it takes a little. Marketing aspect is a little harder in MP, then it was in Gujarat you know.

Moderator: Thank you. The next question is from the line of Shiv Kumar from Unify Capital. Please go ahead.

Shiv Kumar: Directionally what is your projection for NIM, as in you said that the NIM declined due to increase in leverage. So directionally where do you see it may be 2-3 quarters down the line



and where the thing will settle down after which it can maybe we can look for an upward move?

Jayendra Bhai Patel: I do not want to even begin to kind of give you a projection on where our NIMs will wind up at. Our target is an ROE of about 18%. So that is what we are concentrating on and on the long run I hope that will be about 18%-20% return on equity and to elaborate more our ROAs will probably come down a little bit because expanding on borrowed money is obviously more expensive than expanding on equity. So I hope as we leverage more, our ROEs will go up, although ROAs might go down a little bit. As far as the NIM figures in the future, I do not have a good answer for this.

Shiv Kumar: Sir currently what is the total debt outstanding sir, consolidated level?

Jayendra Bhai Patel: Total debt outstanding as on December, on a consolidated level you said?

Shiv Kumar: Yes sir.

Jayendra Bhai Patel: It is 115 crores.

Shiv Kumar: And sir you said that you have got new limits from SBI and IDBI, you shared the number from SBI, that is 24 crores at 11.8. Can you share the figure for IDBI sir?

Jayendra Bhai Patel: IDBI we got 12.25%.

Shiv Kumar: The branch network growth, do you have any target by December. What is your target if the growth will be at the same pace?

Jayendra Bhai Patel: Our target by the end of the year was about 59 total branches. We have achieved around 58. For the rest of this year will probably open around 2 branches more approximately but it just depends. But let me also tell you that we rather have a disbursement target than this branch. It goes hand in hand and as I said earlier 180 crores disbursement is what we are going to achieve.

Shiv Kumar: Sir incrementally the growth in Madhya Pradesh will be slower you are saying, the branch network growth because last quarter you opened extended it only by one branch or so, so that is the reason I am asking as to are you taking a conscious approach towards Madhya Pradesh?

Jayendra Bhai Patel: It is not per se conscious approach. What we have found out is that we have opened up a lot of branches very quickly in MP before we want to open further branches we just want to make sure that the current branch network which is breakeven. Our current employee strength increases, we developed the vintage with our employees before we, opening branches in microfinance is pretty easy. I can open up a branch in 5 days' flat. It is a stereotypical furniture, computer, employees and go but how to service those brands what employees to keep in those branch, who to trust, who not to trust those are bigger issues. So before you want



to go crazy opening branches all over the state you want to take it easy evaluate the impact on profit, evaluate the risk factors and approach it consciously.

Moderator: Thank you. The next question is from the line of Ankit Gupta who is an individual investor. Please go ahead.

Ankit Gupta: Would you please tell your plans for entering a new state and which states are currently under the radar and till what timeline can we expect to enter our third state especially in....

Aalok Patel: Currently we are exploring which is the third state we are going to enter into. Definitely we plan to enter one during the next fiscal year around Q2 area. For that we need to planning start now. As far as which state to go to I mean we are unsure ourselves although there are a few contenders but there are no obvious choices per se, but Maharashtra is there, then we are considering certain areas of Rajasthan, we are considering certain areas of UP. So those are some of the 3 ones that we are considering and others as well so it just depends. I think we were prepared to hire some consultants to help us evaluate the different states.

Moderator: Thank you. The next question is from the line of Akshay Badjate from Rubicon Capital. Please go ahead.

Akshay Badjate: Sir could you explain why our two wheeler disbursements have seen a sharp step jump in terms of disbursement and is the run rate of disbursements now sort of reset or will it again go back to the normal level of 13-14 crores if you have seen in the past?

Aalok Patel: 13-14 crores a month you are talking about in microfinance?

Akshay Badjate: In two wheelers?

Aalok Patel: In two wheelers during the Diwali season and the festive season the exact opposite reason that I gave you for microfinance, two wheeler disbursements go up a lot during the Q3 and then they kind of go down a little bit during the last quarter because of something called Kamurta which is a non-auspicious time to buy vehicle. A lot of the middle class people they consider good times to buy assets for the household and best times to buy asset. So two-wheeler is sort of cyclical. In that sense there will be lot of options. We cannot keep a steady disbursements, there will be ups and downs depending on the season.

Akshay Badjate: Sir my next question is typically where does our balance sheet leverage stand as of today and at what level will we need to explore using capital again?

Aalok Patel: On a consolidated level our total debt is about 115 crores and we have an equity base now of about almost 50 crores. So we are quite comfortable but the complication comes in as far as Arman and number of those subsidiary, subsidiary has the highest growth but a lower equity base. So what we recently did was just as a temporary arrangement we managed raising some Tier-II fund of only about 5 crores although that will allow us to raise about our portfolio by about 35 crores. So we have another NCDs under work right now about 20 crores or so and



tenure between 3 years to 5 years that should also first increase our Tier-II equity base. As far as capital raising is concerned, I mean our overall strategy is to delay it as long as possible to build the book and to make sure that your current equity is leverage as much as possible. That being said if there is a good opportunity that means at a good valuation, we are happy to consider it. But we are not actively seeking out any private equity investors at this moment.

Akshay Badjate:

Sir my third question is with respect to how large is the market size for MFIs in the state of Madhya Pradesh and Gujarat, I am just trying to ascertain what is our market share today in both the states and what does the largest player have in terms of market share? I am just trying to understand what is our market opportunity in both these states keeping in mind the competitive scenario?

Aalok Patel:

I would not be able to tell you right now without looking on some industry information that I have, I can tell you for a fact that in Gujarat my market share will definitely be in the top 5. In MP it will be on the lower. It will be probably in the second or third quartile of market share just because I was a late mover. As far as the state goes, I think Gujarat has crossed 1000 crores sometimes last year, I could not tell you about MP on top of my head but if you send me an email I will be happy to sent you that industry information. We have a very strong association called MFIN and I am sure you might have heard of this and we can pull out this data whatever you want from MFIN and we will try to get as much info as you want.

Moderator:

Thank you. The next question is from the line of Rajiv Pathak from GeeCee Investments. Please go ahead.

Rajiv Pathak:

Sir, again going back to the competition, I agree that some of the new license holders will be busy in transition phase, but over a longer period do you think that since that they will be moving out of that two MFI per borrower limit there will be some increased competition from them, say 3 years, 4 years down the line?

Jayendra Bhai Patel:

See overall our optimistic prediction is that, not only it will not affect us much but it will be advantageous for us for a few reasons. Number one, of course this is my opinion, other people's opinion might be different, my opinion is it is going to be hard for the small finance banks to raise a deposit base and servicing that deposit base will be very expensive. Why microfinance is so successful is because we go to their doorsteps to service the loans. If you are doing that for deposits, going around in a village 40-50 KM away to collect Rs. 50-100 deposit is going to be unfeasible. I think the only way they are going to manage having a deposit base is if they collect from the urban area and deposit from the urban areas and disburse in the rural areas. When you talk about collecting deposits from the urban area it is going to be very difficult because there is a competition collecting deposits both from PSU banks, private banks, other players, long established players. Second thing is to cut those operating cost, they are going to probably move out of this Rs. 15,000-20,000 loans and concentrate more on a slightly higher ticket loans may be Rs. 50,000- 1,00,000 kind of loans. So you are getting into the MSME segment with this small finance banks. So overall there might be vacuum for people like my customers, there might be a vacuum where earlier these



people who are being services by these small finance banks for Rs. 15,000-20,000-25,000 loans hopefully I will be able to step in and service them. Let us see, I do not want to predict how things will work out but even in the worst case pessimistic scenario there is enough room for all of us to operate. You think with all these MFIs coming in the moneylenders and informal segment would be running away from the villages but no, even they are operating, even if I go right now on to the small villages they are still very much active. So there is enough room for all of us to operate and the market is large enough that everybody can have a piece of pie.

Rajiv Pathak: Sir can you act as BCs for any of these guys?

Jayendra Bhai Patel: We have considered BCs. I think lot of MFIs have become BCs for different banks. But the primary thing right now is that the margins in the BCs are very low. So I think they range from 6%-8% I heard as highest may be 9% or something, it is a way to grow a loan book without generating profit. So if an MFI is just interested in growing the loan book it is a good thing to consider or those people who are having difficulty in raising fund from banks or financial institutions it is one way to get funding. For us we have always managed meeting our targets by raising funds in the more conventional means and we are not interested in growing the book if we cannot make money out of it. Let me also tell you we are a listed limited company. I have 7000 shareholders to answer and we are a continuously dividend paying company sir. So profit is the criteria. We are not nonprofit organization and we feel that the profit that we can generate from our own money cannot be generated with a BCs and hence at this juncture we are lucky and we are continuously in the black and that is where we want to be sir.

Rajiv Pathak: That is a touchwood, that is for sure. And sir just one thing on this two wheeler space, any specific geographies where you think we have lost some of the market share?

Jayendra Bhai Patel: Well, I would not say we have lost the market share sir, but the scenario as far as the two wheeler financing is concerned I am afraid to say that it is a way to changing. As you know there is a lot competition and there are lot of manufacturers finance is now available. You will talk about Honda, you talk about TVS, you talk about Hero, you talk about Bajaj, they have now their own finance companies and what they ask their own dealers and they give targets to their own dealers like alright if you are doing 1000 vehicles per month out of 1000 you must do certain amount in financing. That said, it is sort of controls my penetration into that dealership and we are basically working on a pull model rather than on a push model. So we sit there at the dealers and we try to pull the customers towards us. So all these scenarios if you consider it is getting little rough out there. I do not what the future might do but you know at this juncture plus the industry I would say is growing at what, 7%-8% annually. So all this if you putting together it is rough out there, that is all.

Moderator: Thank you. The next question is from the line of Nishita Kankaria from New Berry Advisors. Please go ahead.



- Nishita Kankaria:** I just want to know the revenue mix of two wheelers and three wheelers and also of MP and Gujarat separately if you have the numbers?
- Jayendra Bhai Patel:** I do not have those numbers separately but let me also tell you madam that as far as Madhya Pradesh is started we just started about 2-3 months ago. As far as my Indore operations are concerned and the numbers that are coming out of Indore will not be that significant. As far as the three wheelers goes it is a discontinued operation, so I think we are not lending any more three wheelers. Whatever is on our books that will continue to generate revenue until it runs off and I will have to bring those exact numbers for you. though it will be in the single digits. But let me also tell you that three-wheeler the Regional Transport Authority in Ahmadabad is not giving any more licenses to new rickshaws. When we entered the Rickshaws there was notification that all the Rickshaws have to be converted into CNG and that is where we saw the opportunity and we deal a lot of Rickshaws at that time. At this juncture the three wheeler is becoming a saturated market, RTO knows about it and even the Rickshaw Owners Association it was in the newspaper that they themselves are saying that no further license should be given. So the future potential of this three-wheeler at this juncture is limited.
- Moderator:** Thank you. The next question is from the line of Praful Kumar from Birla Sunlife. Please go ahead.
- Praful Kumar:** Sir I joined late, just want to check on this, your borrowing cost is still high, anything you are doing to change that or do on the liability side if you can just explain that?
- Jayendra Bhai Patel:** Praful, I think we covered that but I will just give a brief synopsis that we have a lot of expenses, financial institution loans which are running off and replacing those with banks borrowings I think we just mentioned that we just got fresh sanctions from SBI at 11.8% and IDBI at 12.5%. So our reliance on financial institution is slowly going away as we replace it with bank funding the cost should automatically go down.
- Praful Kumar:** So that is why it is positive and secondly this quarter other expenses have gone up significantly, any key reasons for that, have you talked about it?
- Jayendra Bhai Patel:** We covered that extensively.
- Praful Kumar:** No worries I will take it offline then.
- Jayendra Bhai Patel:** Praful, why don't you do one thing, why don't you give me a call.
- Praful Kumar:** Okay I will do that. Thank you.
- Moderator:** Thank you. The next question is from the line of Shankar V who is an individual investor. Please go ahead.
- Shankar V:** Sir what is the average cost of opening a new branch in microfinance?



Jayendra Bhai Patel: It is not very high Shankar. Our computers and systems and everything cost about 40,000 and the furniture cost about 50,000 plus you have gas and other things. So about maximum 1.5 lakhs we can open or fixed assets, we can do it. Another may be 20,000-30,000 use on surveys that include reports from HighMark that includes our own equal of 3 different levels going on area level and a village level to do surveys, but otherwise we rent them and the rent cost goes anywhere from 6000-15,000 monthly rent depending on rural, semirural or urban. So let us say a rough cost of between 1.5-1.8 lakhs if you add training to the staff and other expenses yes it is adds-up, you can add overheads and the other things yes, direct cost yes, but the physical cost is not that huge.

Shankar V: And sir what time does it take to reach the breakeven level?

Aalok Patel: Normally it takes about when the branch size reaches 800 clients. Now reaching 800 clients just depends, sometimes it reaches it in 3 months, sometimes it takes 9 months, sometimes even 12 months depending on the density and what have counted but we usually run it by number of clients and that is about 800 clients.

Shankar V: And sir you said that you would be opening two new branches by this year end and what is the target next year FY17?

Aalok Patel: We are working on those targets, we have to finalize it ourselves before we disclose it, so I do not have an answer for that yet.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: I just wanted to know about the efficacy of this credit bureau for the microfinance institution and what impact it is having and are we utilizing those services and NPA level that is the main worry with this microfinance, so we are doing without collateral. So how much is the concern at that level sir?

Aalok Patel: So to understand you are saying what is the impact the credit bureaus is having in the industry, is that correct?

G Vivek: Correct sir. I believe that credit bureaus are also like CIBIL for retail and banking. There are some credit bureaus operating for microfinance institutions, are we utilizing them, how effective are they and what impact are they having on the industry and opportunity size?

Aalok Patel: So we were one of the first movers to use the credit bureau. We use something called HighMark. HighMark was basically one of the first credit bureaus for microfinance company and it was created by microfinance companies. They created a Venture **(Inaudible) 54.38** Alpha, so that is a kind of a long story. We have been using credit bureau successfully for about 3 years now and we use 100% of our loans are checked by the credit bureaus, I think if you consider, we use CIBIL for our two wheeler loans and HighMark for our microfinance loans. The hit rate which you get in HighMark is actually much better than what you get in



CIBIL. So they have done a tremendously good job of covering the small borrowers all over India. That being said there is a limitation because if the person has borrowed from let us say from bank from State Bank of India and borrowed from SKS and borrowed from me, only mine and SKS's loan will show up there. The bank borrowings will not show up. So there is a little bit of limitation but overall it has been very successful.

Moderator: Thank you sir. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Just wanted one data point, what is our ticket size and what portion of our loans are two year loans now?

Aalok Patel: The ticket size for our two year loans now we have just changed it, earlier it was 25,000 and 30,000 and now we have changed it to 30,000-35,000 and we also have a product of 40,000 although we have not lend that to anybody yet. So that 40,000 loans it was more of an SME kind of loans. That will roll out in this month as well. So two years is that and for the 14 months' product we have 12,000-15,000-18,000-25,000.

Digant Haria: Average ticket size of the entire microfinance book?

Aalok Patel: Our portfolio per client is approximately 10,000 and our average disbursement per client is approximately 19,000.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Haria for his closing comments.

Digant Haria: I would like to thank every one in the Arman Management as well as all the participants on the call. I am sure it is a very eventful day with lot of results. So have a nice day everyone. Thank you.

Jayendra Bhai Patel: Thank you Digant.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Antique stock broking that concludes this conference call. Thank you for joining us and you may now disconnect you lines.