



“Arman Financial Services Limited Q2 FY2018  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to Arman Financial Services Limited Q2 FY2018 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder, 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 the 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 Limited. Thank you and over to you Sir!

**Digant Haria:** Hi, good evening everyone. Thanks for taking out time. Thanks Jayendra Bhai and Aalok for taking out time for investor and thanks to all the investors who have joined the call. So without any further delay, I will hand over the call to Jayendra Bhai and Aalok for opening comments where they can talk about the business environment and what is happening in their company and after that we can open for floor for questions. Over to you, Jayendra Bhai and Aalok!

**Jayendra Patel:** Thank you Digant. Ladies and gentlemen, thank you for joining the con-call for the Q2 of FY2018 results. I am sure a lot of you have been looking at our results for the last quarters and has their minds flooded with questions regarding growth, profitability and asset quality one year after the demonetization problem. We will spend next hour trying to answer your questions regarding the overall state of affairs of the company and the industry as a whole. Let us get right into P&L.

Income from operations for the last six months ended compared to the same period the previous year, increased by 18% from Rs.26.9 Crores to Rs.31.7 Crores. PAT for the six months ended was Rs.1.74 Crores compared to Rs.5.35 Crores the previous six months. This represents a 67% decline. As you have no doubt noticed, the profits remained muted in the past quarter. This is mainly due to two reasons. Firstly, due to the heavy write-offs and provisioning in the microfinance division in the last quarter due to the lingering effects of demonetization and second due to high operating cost, we are incurring to fund our growth. Let me tell you this, operating costs are mostly a function of disbursement while income is a function of average portfolio. Let me repeat that again, operating costs are mostly a function of disbursement while income is a function of average portfolio. Since we saw a decline in our portfolio during the demonetization period, the average portfolio has not increased as quickly as disbursement. This will balance in the coming quarters. As the management of the company, ladies and gentlemen we are keenly aware that we are ultimately responsible for the bottom line. Let me spend a few minutes to discuss what steps we have taken since the demonetization disruption to ensure our quick return to profitability and to also strengthen our risk framework. We have ramped up our growth. In the past six months alone, our AUM has grown 55%. We ended the last fiscal year with Rs.191 Crores AUM and as of September end of this year we stand at Rs.296 Crores that means in six months, we have grown from Rs.191 Crores to Rs.296 Crores. We



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are targeting to get close to Rs.400 Crores by the year end and I will tell you that I am hopeful that we will cross Rs.400 Crores.

We have increased our branch infrastructure. In the last one year, we have opened 41 new branches, which have increased our quick monthly disbursement levels from Rs.30 Crores to Rs.50 Crores a month. These branches were opened to diversify our risks both geographically and from a product line perspective. Peak microfinance monthly disbursements have reached Rs.37 Crores a month compared to Rs.26 Crores pre-demonetization. We have recently opened the new rural MSME division where we are targeting customers in the 50,000 to 1,50,000 range. In a short six months, this portfolio has already reached almost Rs.25 Crores with 4300 customers. We are happy to report that this division has reached breakeven and has earned a modest profit in the last quarter.

Our two-wheeler portfolio is also performing well. AUM has grown from Rs.63 Crores to Rs.82 Crores compared to the same quarter last year a 30% increase. The Diwali season also went exceptionally well despite lukewarm expectations. Compared to many other microfinance companies, we have diversified product line with over one third of our portfolio being non-MFI. We have also taken steps to reduce our exposure geographically less than 50% of our MFI book is currently in Gujarat. This was almost as high as 80% one year ago. We have expressly written-off debt assets related to demonetization in the microfinance division. Total write-offs in the last six months in the MFI book alone was Rs.3.13 Crores remaining NPA stands at only 1.10%.

Repayment issues in microfinance is not the systemic risk, but was a black swan event. In the past quarter, the repayment rate of the loan disbursed post demonetization was 99.84% that means whatever we are disbursing we are collecting. This is exceptionally high and very encouraging. Personally it has been roller coaster journey since last November 8. I know many of you especially myself are sick of hearing the word 'demonetization'. There is a popular quote that says tough days never last, only tough people do. I extend the quote then say tough days never last, only tough companies do and Arman is as tough as they come. Thank you and I would like to open the call for questions. Thank you all.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Shreenath V from Bellweather Capital. Please go ahead.

**Shreenath V:** Good evening guys. Just wanted to find out what is the PAR 60 for MFI book as of the quarter end?

**Aalok Patel:** So PAR 60+ for the MFI book is Rs.3.82 Crores and that represents approximately 1.91% of our portfolio.



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**Shreenath V:** This number was more than 5% last quarter, so can you take us through how this journey of collection has taken place and this improvement we are showing in nonperforming assets?

**Aalok Patel:** So as Jayendra Bhai said it has been a sort of roller coaster ride. So, there are some areas from a macro perspective, I like to split it up. There were certain areas which we did manage restarting and this has remained stable throughout this last one year as far as repayment. There were just coming late and for me that was a huge success. There were other areas which had reached sort of a tipping point as far as defaults were concerned; so what happen in those cases: imagine like you had a group of 100 people and 70 were paying and 30 were not paying. Seeing those 30 people, the 70 who were paying felt like fools thinking “why am I paying when no action is being taken against the people who are not paying”. So those were the stragglers that came later on that defaulted, so those are restricted to a few villages in the areas that we operate. some of the steps we have taken to recollect is we have hired a completely separate team for repayment, I think we are one of the very few MFIs that have done that. So in any of the branches, which has a lot of overdues like for example the milk belt of Gujarat, we have created a complete separate team from our regular FOs. So, the field operators can concentrate on the current business and the current recovery and a new position that we have created as a Recovery Officer, which reports to a completely separate person, those guys are just responsible for recollecting the overdues. So that has worked well. We are collecting almost about 2.5 lakhs a day from that department alone in overdues and we have also seen a good progress even in the written-off amounts that are 180 days plus. So it is not very high amount, but every day out of that 2.5 lakhs or something, we are collecting about Rs.10,000 to 15,000 in 180 days plus kind of assets. So this is just a followup game. It will take a couple of years and my strategy is very simple; as long as my recovery is higher than the payroll of these recovery officers, I will keep them on indefinitely. So I will collect as much as I can through followups.

**Jayendra Patel:** Let me also tell you something Sir that this is nothing but a followup, especially in Gujarat and especially in the milk belt where 80 of my problem exists. Let me also tell you these people are not the people with bad intention. They are the mostly people that they just have behind three to four installments because of the milk dairies not paying them. Now that the situation is stabilizing. I look at these figures and I encouraged to tell you that my RO team, which is our special team created for recovery only, that money is coming even from those people which are 180 plus overdues. I am hopeful my friend that we will be able to recover lot of the overdues in the time to come...

**Shreenath V:** That will be great Sir.

**Jayendra Patel:** I am very optimistic let me tell you and as I said that as long as I keep on collecting more money than the RO payroll, I will continue doing so.



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- Shreenath V:** Got it. Sir could you just help me breakup this consolidated other expenses of Rs.4.4 Crores, I basically would try to understand how much is from a write-off, how much is from provision and how much of the increase in this line item is driven by growth of the business?
- Aalok Patel:** So for the six months ended, about Rs.3.13 Crores the write-off and provisioning on standard assets which is RBI required that is 1% of your AUM; that was about Rs.70 lakh because our portfolio increased drastically in the last six months.
- Shreenath V:** Okay and in case, so I am looking at the Q1 numbers that is about Rs.2.4 Crores written-off in Q1 so the balance is just 76 lakhs written-off in this quarter, is that a right understanding?
- Aalok Patel:** No I think last quarter the write-off was Rs.1.8 Crores I believe, I don't recall exactly. But this time it was Rs.1.2 Crores... so last quarter it was about 1.9 Crores.
- Shreenath V:** Okay. Got it. And these are all growth related other expenses.
- Aalok Patel:** Yes, so the operating cost basically all the others that related to growth as Jayendra Bhai said in his speech, what is happening is if you look at the average AUM in the last six months and compare that with the average AUM in the same six months prior year, there is not a very, very large difference in the average anywhere, although disbursements, at least in microfinance, have increased from somewhere like an average of Rs.20 Crores to Rs.35 Crores so because we saw a huge decline in the AUM in the four months that we stopped disbursement that pushing the AUMs lower and as a result the income generated from those average AUM is on the lower side, but as we keep disbursing more and this year gets over that will cover, that will even out the balance out and I think next quarter we should start seeing the results from all our added disbursements.
- Shreenath V:** Great. I just wanted to find in our Rs.105 Crores MFI disbursements, how much would be UPs contribution from the same, very kind of rough estimate?
- Aalok Patel:** About 22%, so we are doing about Rs.10 Crores a month on an average.
- Shreenath V:** Okay. Wow, that is big.
- Aalok Patel:** So last month we had reached 10.5, so average will be maybe about 8 something roughly speaking. So we are doing quite well, but at the same time we are not pushing UP to its ultimate limits, I am aware and I do not want to go very rapidly in UP, even though there is a room to go very rapidly in UP, we are very cautiously going up. Just to also give you an idea that as far as our portfolio distribution, last year we had made a goal to sort of diverse ourselves from such a high concentration in Gujarat, so last year we were almost 80% of our portfolio in Gujarat slowly from a microfinance



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perspective now that number is closer to 50% in the Gujarat, we have 20% in UP approximately 20% in MP and 10% in Maharashtra. So I think by the end of the year, Gujarat figure should be closer to about 40%, so I think we have done a pretty good job to reduce our geographical concentration in the last year.

**Shreenath V:** Great, just want to find out how is the experiment with digital disbursements in Uttar Pradesh going and how is it taken off per se, customer acceptance?

**Aalok Patel:** I mean for us it is fantastic, we tried to roll it out in other states and the other states are not responding very well, but I think one of the managerial lessons to learn here is that in UP side we basically put our foot down and said that the only way you can disburse is through cashless otherwise you cannot disburse. So everything kind of went haywire for a couple of months and then it worked itself out operationally speaking. In the other states especially when you have clients who you have – in UP it will be all new clients, because it is a new state, but in another states like Gujarat and MP you have old cycle clients, so people who have been in with you for multiple years. Now the question there is why I want to lose the client ultimately if she does not have a bank account, and my answer at that time was no that I do not want to lose a three or four years old client simply because she does not have a bank account or for some reason she does not want to use a bank account. So in that level, non-UP state is only about 20% non-cash penetration, but UP we are continuing with 100% which is working very well, so I think about next year, we can probably target a much, much higher cashless disbursement in the other states.

**Shreenath V:** Got it and the last question would be in the press conference, reference to a timing variation for the kind of slightly lower than NIMs is normal, could you kind of elaborate on that?

**Aalok Patel:** On the lower NIMs?

**Shreenath V:** Yes, you made a mention that there was a kind of a timing variation maybe back-ended disbursement?

**Aalok Patel:** What happens is our disbursement on average has been increasing about 20% month to month; now where the timing difference comes in is that let us suppose I am disbursing Rs.50 Crores this month. I am not going to earn the interest until the following month; you get me because most of disbursements are occurring during the end of the month that is just the way the industry works. So this income you will realize on the increase in AUM this month might not come until next month... does that kind of makes sense? The second part of the NIMs what I think is that as the leverage increases. See, the portion of revenue that you earned from equity is free, relatively speaking at least from P&L perspective and the debt is the one that cost money, so as your leverage increases, your NIM probably comes down little bit, so our leverage has been increasing on that end as well and on the third aspect, our cost of barrowing has also gone up slightly, I know that is not something that



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investors like to hear, but It has gone up by about 20 basis points. It has gone up because we are growing very fast and we need quick access to funds and when you have that kind of a cash churn, sometime you have to go to more expensive sources, so that is basically what happened on the NIMs end.

**Shreenath V:** Got it. For the rest of my questions, I will come back in the queue.

**Jayendra Patel:** Okay.

**Moderator:** We will take the next question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

**Anand Bhavnani:** Thank you for the opportunity. Sir my first question is from the branch expansion perspective, in the press release on page 6 Sir you have mentioned that 10 additional branches might be opened there, had already kind of identified and you have delayed it, so when are these slightly you are going to be taken up, would it be in FY2018 or post FY2018, in FY2019?

**Aalok Patel:** Yes, so we have about three branches in Maharashtra, three branches in UP, two in MP and one in MSME which we were planning to open in the either the end of last quarter or beginning of this current Q3, but from an operational expense standpoint, we thought it was prudent to wait a little bit until we start earning the added revenue from the AUMs which are increasing. That was just saying that we have another 10 branches in the pipeline when its prudent to open, we might open it this year but we have not really identified which month we will open it or how the roll out is going to be. There are HR -related issues as well because we have been recruiting very huge in the last few months and when we open new branches, we want to staff it with a few old people that we trust. That becomes difficult when we are opening too many branches at once.

**Anand Bhavnani:** Okay so Sir would it be... can we assume that at max 10 more branches will be opened in FY2018 or it would be higher than that?

**Aalok Patel:** No, at max another 10 branches. Now that is not the case around March time, I will have to start figuring out what I am going to do for FY2019 also. So I do not know how that plan is going to roll out but at least for this year plan, 10 is as max as it will go probably less but not more.

**Anand Bhavnani:** Okay and Sir second question was about provisions on the page 7 of the press release especially you mentioned loss in P&L microfinance is 2.19 and then provisions we have not kept any, so Sir given the quantum is high wondering, why did not we have some provisions?



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**Aalok Patel:** So this is a little weird, I see your questions again I should have presented it a little better, so for the MFI book RBI specifies that you have to provide the higher of 1% of your standard asset or 50% of assets of your PAR 90, whichever is higher. So in our case, our PAR 90 figure was around percent and a half of our current portfolio. So we did not really have to make any provisions for the NPA, but our provisions for standard assets is about Rs 1.9 Crores, something around that neighborhood. So in the previous quarter, what used to happen is that the provision for standard asset always used to be larger than the gross NPA. So historically speaking, we have always put down zero as a provision for NPA for micro, but I guess you can take that as you want.

**Anand Bhavnani:** Okay. Fine Sir. I will come back in the queue for additional questions.

**Moderator:** Thank you. We will take the next question from, the line of Pravin Lodha from Stakeboat Capital. Please go ahead.

**Pravin Lodha:** Thank you very much for the opportunity Sir. So my question was on the MSME segment, so what sort of the sense you are getting like where do we see our loan book growing and I have noticed that we have almost reached the breakeven point, so I just wanted to get a sense as to where do we grow this book growing at because in the previous call if I recall it correctly, we were targeting close to Rs. 80 Crores, right?

**Jayendra Patel:** Yes, you are right. Earlier in the year we were targeting the loan book to be about Rs. 80 Crores.

**Pravin Lodha:** Yes, so where do we see this growing let say one year or two year down the line?

**Aalok Patel:** One year or two year is the little – let us start with what is going on right now and that is Q2. So currently right now we are estimating that we will close the year at about Rs.55 Crores, so the earlier was about – our expectation was Rs.80 Crores, now I am expecting it to be closer to Rs.55 Crores for a couple of reasons. One is that we are held back on opening new branches just from a risk perspective and from an operating cost perspective, so while we have planned to open about 20 branches in MSME side, we have held that to about 13. The second part is more on a expectation part is that the loan was targeted between Rs. 50,000 and Rs. 1,50,000, so I had anticipated that the average loan size will be closer to about 1 lakh, but it turns out that is not the case, the average loan size is coming out to be based on our systems and going through our large filters is coming out to be about Rs. 55,000, Rs. 60,000 the loan size, so I guess it happens when you are starting something new, sometimes your expectations are wrong, so I do not know exactly we have discussed this on numerous occasions about how we can kind of bump that number a little bit. Certainly we do not want to compromise on our underwriting standards, so in that way we target different people but right now it seems that in the rural MSME side the average appetite is only about Rs. 60,000, while they might apply for a Rs. 1,00,000 or Rs. 150,000 after accessing their cash flows and everything their



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eligibility does not turn out to be more than on an average about 60,000, so that is where our expectations were sort of re-corrected. So going forward, I think we are very bullish on this MSME segment. The margins are higher; we were expecting higher loan loss that has not come; touchwood. So there is no NPA surprisingly, the MSME side there is no NPAs and only 12 overdues, out of some 4200 customers, so it is very, very encouraging for us overall. But I think after one year it gets over, we will get a better idea because the first 12 months the defaults are usually very low in this segment, so after one year goes by, we will reassess where we stand as far as the risk and everything is concerned and all is well, we can start opening new branches, we can also work out of our existing microfinance branches if that allows us as well. Right now, we are mostly out of the 13 branches, 11 of them are in Gujarat and only two of them in MP, so we can expand in other states as well but it is very hard to give you a definitive AUM number, definitely we will process Rs. 100 Crores that is nothing to be problem, but little preliminary at this point.

**Pravin Lodha:** All right Sir. Sir next question is on the MFI business, so what is the average ticket size there?

**Aalok Patel:** It is about 23,100 approximately.

**Pravin Lodha:** Okay because I see the MFI disbursements picking up quite nicely and it is good to see that, so just wanted to get a sense on if you can get a split as to how much is the repeat customer and how much is the new customer for the fresh disbursements which are happening?

**Aalok Patel:** Most of them are new customers, so we lost a lot of old customers during demonetization and everything, so very roughly speaking if you count our current disbursements almost 60% to 70% are new customers. We have a lot of rejection rates. The entire industry has a lot of rejection rates. Almost 50% are being rejected because of credit bureau. We go above and beyond RBI as well, so we do not want - especially the microfinance customers we do not want the net outstanding to go beyond Rs. 60,000, even though the RBI is allowing Rs. 1,00,000 plus. So I mean they can qualify for our MSME if they like but not in the microfinance, but majority are new customers surprisingly.

**Pravin Lodha:** Sure Sir. What is our yield on this MFI book, general yield?

**Aalok Patel:** Right now it is about 24% plus 1% processing fees, on an IRR basis; it will be slightly above 25.

**Pravin Lodha:** Okay. Sir we have made a huge borrowing obviously, so what incremental cost of our borrowing at this time?

**Aalok Patel:** I mean it really depends on we just got a sanction at like 10.2% and we just borrowed some money at like 13.5%, so it just depends... there is a little bit of a liquidity issue right now in the MFI industry, things are not as - funds are not as easily available from the PSU banks as they were last quarter so



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some PSU banks had increased in the previous quarter where we were cutting down our dependency on NBFCs and financial institutions, but unfortunately we had to take a step back because of our growth and just the way the industry is. So cost of funds is slightly increased by about 20-basis points in the last quarter. But let us hope that we can cover up in the following quarter after that.

**Pravin Lodha:** Sure. Sir my last question is on this book value, I am just trying to understand it has come down from the March figure and we have reported profits both the quarters, so I am just trying to understand kind of a manipulation?

**Aalok Patel:** So I am sorry there is a – I got that question earlier, there was a typographical error in that, you are seeing I think 72.92....

**Pravin Lodha:** I am seeing 75 if I am not wrong; I have seen the latest one?

**Aalok Patel:** You are right, 75.84 that is a correct figure, it was because of that Rs.5 Crores preference shares so we had redeemable preference shares on our balance sheet worth Rs.5 Crores, and we redeemed in I think the last quarter I believe.

**Pravin Lodha:** Okay. That is it.

**Aalok Patel:** So I think tier I was Rs.52.5 Crores right now, where Rs.5 Crores that we redeemed it would have at 57.5 or something. So we have reported **(audio break) 35:06** but the growth has obviously slowed down on the book value perspective but we will cover up.

**Pravin Lodha:** Okay. Sure Sir. Thank you so much Sir.

**Moderator:** Thank you. We will take the next question from the line of Amit Mantri from 2Point2 Capital Advisors. Please go ahead.

**Amit Mantri:** Hi. I just want to understand you are now already at closed debt equity of around five times and if you continue to grow at this pace and the target is 400 Crores of AUM by the end of the year, you quickly need to raise the equity capital within the next three to six months itself, so what is the plan on that front?

**Aalok Patel:** So I think we are at a debt equity of 4.6 if I am not mistaken, but anyway, so recently we did raise about 15 Crores of tier 2 sub debt, so that should be now to last until the end of the year I think we are good to comfortably last up to about Rs.420 Crores AUM, so that being said you are right in another six months or so we will have to raise some funds then we are working on attracting some tier 1



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capital at the moment. So I do not foresee you that to be a problem as far as raising tier 1 especially since we have more than enough time.

**Amit Mantri:** Okay, and second question, I just want to how much was the impact of raising large amount of funds in this quarter for the growth, what is the impact on the P&L of that? The closing cost of the loans that you had did mention?

**Aalok Patel:** The closing cost - I do not have the exact figures unfortunately in front of me, but there are – when you close any loans there is a lot of stamp duties and there is a lot of processing fees and stuff that you have to pay up front. So those all go into other borrowing cost.

**Amit Mantri:** That would be approximately half a percent of the incremental loan sanction?

**Aalok Patel:** I think it will be probably more than that about 75 basis points.

**Amit Mantri:** Okay. Thank you very much.

**Aalok Patel:** I do not know the exact figures, but if you e-mail me, I can find out.

**Amit Mantri:** Sure. I will do that. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Shreenath V from Balveda Capital. Please go ahead.

**Shreenath V:** I just wanted to find out given our current ticket size in MSME with these 13 branches, what is the full capacity disbursement that we can do?

**Aalok Patel:** So we had 13 branches again it depends on the ticket size but right now I think we will reach a peak at about Rs. 5.25 Crores to Rs. 5.5 Crores per month with these 13 branches, just depending on the locations we are at, if I open a couple of more branches in certain areas we can bump that up to 6.5 those will be high volume kind of areas, but right now Rs. 5.5 Crores is about it, we are also considering of extending the MSME to LAP loans as well, so these will be Rs. 2 lakh or Rs. 2.5 lakhs or more. So we are evaluating that at the moment, just to make the branches a little bit more, if we can do about 10% or 15% or 20% of LAP loans on every branch, we can increase the efficiency and the profitability of those branches, so we are trying to recruit certain people because we are concentrating in the rural areas and the paperwork rural areas is not as straightforward as in the urban areas, when you are talking about LAP, so you have to deal a lot with local talati with panchayat and whatnots, so you basically need some ground level experts on that and I am really trying to learn at the moment what is required.



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**Shreenath V:** Good and one more kind of point, I just want to understand how you assess willingness to pay in this particular category of MSME especially the Rs. 60,000, Rs. 70,000 ticket size.

**Aalok Patel:** I think so far I have been very surprised in a good way, earlier I think people who have joined this call when I was starting this, we had assumed the loan loss of about 3% it is nowhere close to that, of course we have some stragglers towards the end where the payment comes in a few day late or something like that, but all in all it has been fantastic and I think the differentiator has been in the –the doorstep collection, my fo goes every month to collect the money, I think that makes the hell of a difference and they have been paying quite well, so surprising it is much better and I am usually an optimistic person, so this is quite surprising but it is much better than even I expected.

**Shreenath V:** Okay. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Savi J from 2Point2 Capital Advisors. Please go ahead.

**Savi J:** Hello. I had three questions from the liability side, just wanted to understand the breakup of your source of funds between NBFC banks breakup?

**Aalok Patel:** Breakup between the sources of funds, so right now we have I think about 190 or at least I will tell you about microfinance and then I will tell you about our two wheeler. Overall we have about Rs.100 Crores, which we have from PSU banks, about Rs.60 Crores to Rs. 65 Crores which we have from financial institutions and about Rs.35 Crores we have in the form of NCD from foreign source. So I guess if you remove that NCDs, it will be about 70-30. On the Arman side, the two-wheeler side, earlier it was I think 75-25, but now after some new loans we have taken; it is closer to 55-45.

**Savi J:** Between bank and others?

**Aalok Patel:** Yes, banks and others, 55-45....

**Savi J:** So banks is only PSU.

**Aalok Patel:** It is predominantly PSU, but like we do have a couple of exposure that we recently got from private banks as well.

**Savi J:** Sir there is lot of consolidation happening in the microfinance space, some of them are converted into banks and recently Bharat Financial will become a part of PSL, so lot of these PSL assets are getting out of market, so I am slightly surprised as to why banks are now not forthcoming to lend you. They



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should be more inclined to lend to someone like you right, especially if they have to meet the PSL guidance.

**Aalok Patel:** Well you are absolutely right, you took the words out of my mouth, but banks live in a world of their own, very hard to predict and we are of course very thankful for the banks who have remained our very long time supporters, but it is a kind of bureaucratic.

**Jayendra Patel:** Can I share my ideas, you see I will tell you the IDBI bank were our main banker and you know what has happened to IDBI bank and considering the banks under pressures from the finance ministry as far as the NPAs and the other things are concerned, they have become a little dormant. There is an absence of decision making and largely speaking banks are reluctant in making a decision and hence I think this is a temporary phenomena and I think that the banks slowly, slowly has started since this recap has been announced by the central government, they have started opening up, so lots of my proposals are pending with PSUs like big PSUs like State Bank of India and other and we are hopeful for that, but since last about six months or eight months, banks have been little slower in microfinance industry.

**Aalok Patel:** Just a part dealing with banks is the unpredictability, so you have a proposal outstanding and sometimes it could get passed in two weeks, sometimes it takes six months and there is no clear answer from the banks of how long it will take. So as far as using PSU proposals to predict your cash flow needs, it becomes very difficult, so that where the financial institutions coming, they might charge a little higher but then make quick decisions and you can probably suitably rely on that. So when you need to fund your disbursements and you need money in the next couple of weeks, the financial institutions are very important to fund those requirements.

**Savi J:** Then why not private banks I mean are they reluctant to lend to you because you are small.

**Aalok Patel:** No there is no reluctance. See HDFC does not really lent to microfinance because they have their own microfinance division as a subsidiary, Yes bank is very active in BC model, so we have ndone that BC model and I do not know–

**Savi J:** Have you had an exposure with Axis banks and...

**Aalok Patel:** Axis is there, we have an exposure with ICICI, with DCB we have an exposure, nationalized banks it just depends-

**Savi J:** So with this decline – you have not really read the benefit of the decline in funds that has happened in the last one to two years from the request of fund?



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- Aalok Patel:** Banks have been reluctant to pass on their savings to us but our rate has gone down as far as the PSU banks are there, so as I was saying that see let us say about year ago, our cheapest funding was about 11.6% which was from SBI, we just got a new sanction at 10.2%, so rates are going down, so let me also tell you that basically the base rate has gone down. So hopefully going forward as the new sanctions come that will reduced our overall weighted average.
- Savi J:** Another question on your MSME business, so what is the average tenure of the loan book?
- Aalok Patel:** 24 months, you can say about 23 months, most of them are 24; we do have a few customers who are 18 months as well.
- Savi J:** So you have a very few customers that are completed one full cycle there?
- Aalok Patel:** Nobody has completed one full cycle yet.
- Savi J:** So, on an average less than one year...
- Aalok Patel:** Right.
- Savi J:** So, in that sense...
- Aalok Patel:** It is not until March of last year, we did start a small pilot from last September I believe but those were Rs. 15 lakhs, Rs. 20 lakhs a month so nothing significant. Probably those loans will get over next year, but we have not had 1 complete cycle yet, no.
- Savi J:** Yes Sir, in that sense that NPA side you will probably realize on the full two years complete and lot of that is provided is back ended, so that is something that probably you need to be careful about.
- Aalok Patel:** So that is what I said I think few minutes back that once 12 months go what the loan loss and what the NPAs will remain in SMEs yet to be seen, but right now it is performing extremely well.
- Moderator:** Thank you. We will take the next question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.
- Anand Bhavnani:** Sir earlier in the call, you mentioned that SME branches that AUM has been on the lower side around Rs. 50,000, Rs. 60,000, Sir I am just wondering is it possible for us to use the SME branches for our vehicle finance business?
- Jayendra Patel:** No, the vehicle finance business works from the dealerships, so while we do say that we have six branches in the two-wheeler side Anand, we actually work with about 50 to 60 dealers, so our staff



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and everybody sits at the dealership, we do not get a lot of walk-in traffic for the two-wheeler business, but we have funded some two wheelers from our MSME branches as well and those are more of the full model customers that do not go to the dealership but we finance them directly, but most of the two wheeler business happens at the dealership. We can use them for a back office, and like in Godhra areas we have combined both of those offices.

**Anand Bhavnani:** Yes, Sir as I asking this question was earlier today, the another company, Muthoot Capital Services, they were discussing how they are using their branch network for gold loans to disburse vehicle loans, and they have done particular well to capitalize the exiting branch network, so it was just bouncing of that idea whether we can capitalize our existing network as well?

**Aalok Patel:** No I mean it is really a no brainer, it is a fantastic suggestion we definitely appreciate it, what we found out early on when we tried to mix our two wheeler and the microfinance branches, I am talking about maybe five or six years ago, is that it was the complete failure for us, because the cultures did not match, the kind of culture you need for microfinance is very different from the kind that you need for 2 wheeler and overall cost saving was not that much because when you talk about rural areas, the average rent is only Rs.7000. The employees needs for computers and other infrastructure remains the same. So the only thing you need is an added maybe Rs.15,000-20,000 a month and for us that was such a negligible amount, it was what worth preserving this individual division's culture and not having the cross mingling of that.

**Anand Bhavnani:** And Sir for our MSME business, how do we source potential clients, are there walk-ins or do we use some agents, how does it go?

**Aalok Patel:** No, we do not use the agents. We use our own field officers, but in the MSME side, we do get walk-ins but it is a similar to how we fund our microfinance. It is more of word of mouth, references that we get, we distribute brochures and fliers at certain areas, we advertise, paper advertise in certain areas where there is incoming traffic at a village level, so therefore I use multiple sources, but we do not like to relay on agents.

**Anand Bhavnani:** Okay. Fine Sir. Thank you. I will come back in the queue.

**Moderator:** Thank you. We will take the next question from the line of Bhavik Mehta from Brescon. Please go ahead.

**Bhavik Mehta:** Hi Sir. Good evening. Just wanted to understand I think you mentioned earlier but if I could again have the breakup of the 15 branches of MSME state wise.

**Aalok Patel:** There are 13 braches in MSME. Two of them are in MP and 11 in Gujarat.



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- Bhavik Mehta:** And new one which may be opened in this current fiscal would be opened in Gujarat itself?
- Aalok Patel:** It will be opened in Gujarat only.
- Bhavik Mehta:** Okay and another question is what is the general turnover time of disbursement within the MSME segment?
- Jayendra Patel:** That is also a very interesting question, so earlier we have made a plan of having about 5-6 day max but on an average it is closer to about 9 to 11 days, just for getting that cheques and everything like that, doing the house visits and the referral checks, so we are trying to cut that down. It is a little bit on the higher side right now.
- Bhavik Mehta:** Okay. So are we using any digital medium or any other specific software for that or is it general...?
- Jayendra Patel:** So we have specific software for it, it is an online, so all our branches are connected to common software to the branches itself. If you are talking about a mobile base right now we do not, but we just acquired new software that will take a mobile all the way from a fingerprint to mobile to Aadhar scanning and all of that. But that will take about six months, so we have just acquired the software, and hopefully we can get it all turn within the next six months.
- Bhavik Mehta:** Okay, so understanding that this quarter was the first time where we broke even within the MSME, so we intend to close the entire year at a reasonable amount of profit?
- Jayendra Patel:** Yes, I think we are already at about Rs.12 lakhs to Rs. 13 lakh in the last quarter that... the divisional profit if you will... goes about that much, I am not exactly sure what our new projections are and what we are expecting to close the year on as profit, but I do not have it in front of me unfortunately.
- Bhavik Mehta:** Yes and last question is related to the financial, just wanted to understand that we have not included the MSME product on our website, any specific reason for that?
- Aalok Patel:** No, it is just laziness I guess, but thanks for the...
- Jayendra Patel:** Yes we have not. It is a very good question Sir and it is a serious issue and we will look into it.
- Aalok Patel:** We will just have to update it.
- Bhavik Mehta:** Thank you Sir.
- Aalok Patel:** Thanks for suggestion.



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- Moderator:** Thank you. We will take the next question from the line of Richa Agarwal from Equity Master. Please go ahead.
- Richa Agarwal:** Hello Sir. Thank you for taking my question. I just wanted to know in UP, what is the typical borrower up profile, average profile, are these farmers or if you could through some on?
- Aalok Patel:** We do not give money to direct agri people, so there are a lot of people who have like ancestral plot of lands, but that is not their primary source of income so we are okay with that, we are also okay with cattle farming and other allied-agri, but we do not give it to farmers who's primary source of income is thru farming. Our customer would be like would be like small Kirana stores, vegetable vendors, small trades of sort, scrap dealers, and hundreds of other occupations. But their profile is quite similar to all the other states profile as well. There are definitely district that do more things than others, so the milk belt in Gujarat will be cattle, there will be certain areas which will be specific for spices or similar things like that. Regional diversities are there, but we do not try to give money to direct agri, just from the risk perspective.
- Richa Agarwal:** Okay and Sir for the new branches that you are opening in UP, what is the typical breakeven period?
- Aalok Patel:** It is from a client perspective, so however long it takes us to get to about 600 to 800 clients and that can take anywhere from 6 to 12 months but on average may be about eight months.
- Richa Agarwal:** All right. Thank you.
- Moderator:** Thank you. That was the last question in queue. I now hand the conference over to Mr. Digant Haria for closing comments.
- Digant Haria:** Thanks everyone for joining the call, thanks to the management and all the investors especially on a Friday evening, have a great evening and weekend ahead. Thanks everyone.
- Jayendra Patel:** Thank you Digant.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.