"Arman Financial Services Q1 FY '21 Result Conference Call hosted by Emkay Global Financial Services"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q1 FY '21 Result Conference Call of Arman Financial Services Limited hosted by Emkay Global Financial Services. We have with us today on the call, Mr. Jayendra B Patel – Vice Chairman and Managing Director; Mr. Aalok J. Patel – Joint Managing Director; and Mr. Vivek Modi – Group CFO. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jignesh Shial of Emkay Global. Thank you and over to you, Sir.

Jignesh Shial: Thanks Steven and Good Afternoon everybody. On behalf of Emkay Global, I would like to thank the Management of Arman Financial for allowing us to hosting this call and also would like to thank everybody for participating, and now I will hand over to Aalok for opening comments. Over to you, Aalok.

Aalok J. Patel: Thanks a lot Jignesh and Good Afternoon to everybody. Thanks to everyone for joining and taking the time out of the day for our first quarter results discussion. As you might have seen, we have already issued a detailed press release and investor presentation for the past quarter, hopefully all of you have had a chance to review it. At the outset, I hope you and all your loved ones are healthy and doing well in these unprecedented times. Since we last spoke, the economic scenario has much improved. More importantly, our overall collection efficiency has picked up well from 66% in June to 80% by August, and with that our liquidity position has also improved considerably. I will first begin by giving a brief overview of our financial performance for the first quarter, and post that, touch upon collections, liquidity, and disbursements in more detail. At the end of first quarter, our consolidated loan book stood at 823 crores higher by 14 crores over the last year. This is led by traction seen in the MSME and the microfinance segments. Our microfinance portfolio grew by 18% YOY to Rs. 605 crores while our MSME portfolio increased by 22% to 136 crores. Growth in both of these segments were primarily driven by customer additions. Active customer base for microfinance and MSME grew by 23% and 36%, respectively in YOY Q1.

In the urban two wheeler segment, our performance was impacted by the decline in two wheeler sales in the preceding fiscal year and the drastic drop in two wheeler sales during the first quarter during the lockdown. However, our newly launched rural two wheeler products saw some good traction up to February last recording a year-on-year AUM growth of 51% to 11 crores by the end of June. The rural two wheeler book now constitutes approximately 13% of the total two wheeler portfolio. Given the countrywide lockdown and the economic uncertainty caused by the pandemic, we prudently choose to halt disbursements in the first quarter, this combined with a pickup in June repayments led to a rundown in our loan book on a sequential basis. Our net total income was lower by 8% year-on-year at 27 crores in Q1. This decline is mainly attributable to number one softer yields in the microfinance and MSME segments, and number two, no booking of processing fees in the absence of disbursements in the first quarter. Furthermore, as a prudent measure, we chose to maintain an ample liquidity buffer and also applied for a moratorium on loan repayments in April and May. This adversely impacted our net total income owing to this negative carry cost.

The company took several measures to reduce operating cost. While there were no layoffs or salary cuts, there were reductions in other operating expenses like incentives, sales and marketing expenses, traveling expenses, and other administrative cost. As a result, our operating expense came down by 14% as compared to last year enabling us to improve our cost-to-income ratio by nearly 250 basis points to 37.5% in this quarter versus 40% last year. In keeping with our conservative approach, we strengthened our provisioning coverage by recognizing additional provisions of 10 crores during the quarter. With this, the cumulative provisions at the end of June 2020 stood at about 30 crores covering approximately 3.9% of on-book AUM. This should help us deal with any impairment on account of COVID in the future. Our asset quality has continued to remain unchanged sequentially due to the RBI announced moratorium. Further, we remain adequately capitalized with a consolidated debt-to-equity ratio of 4X.

Now, moving onto our operations and collections, we have been successful in getting our operations back on track post the lockdown. All our branches are operational now with few of them operating from alternate locations as there were originally located in containment zones. There are ongoing intermittent lockdowns in several areas of operations, which is being managed by the field team to the best of its abilities. On the collection front, as I highlighted earlier, there have been continued improvement since June. In microfinance, repayment rates were 76% in July and 75% in August versus 59% in June, that is in microfinance. At the standalone level which is MSME and two wheelers, the collections were much better with both the two wheeler and MSME segments recording repayment rates of more than 90%. The MSME repayment rate was 95% in July and 92% in August; it was 85% in June. In the two wheeler segment, both July and August recorded a repayment rate of 97% versus 95% in June. Furthermore, cumulative provisions at the standalone levels stood at 10.5 crores at the end of Q1 covering almost 70% of the standalone moratorium book at the end of August.

One minor blip with respect to collections was the overall repayment rate showed a very minor decline in August compared to July. This was mainly because of three reasons; number one, there were many festivals and consequent holidays falling in the month of August, which created a lot of logistical issues both with the customers and the employee level side; number two, there were heavy rains in numerous areas of our operations creating logistical issues especially in places like Gujarat and Madhya Pradesh; and number three, continued intermittent lockdowns in several areas of operations. Going forward, over the next few months, we expect the overall repayment rates to improve significantly as the unlocking of the economy gains pace and restrictions are further relaxed with announcements of unlock 4 guidelines by the Government from September onwards. On the disbursement front, we have gradually resumed disbursements from August onwards. In microfinance, to begin with, we are only focusing on renewing loans of existing customers who have finished their repayments on time and completed their tenure. We are not making any top-off loans or anything similar to that and I guess I can answer about what that exactly means during the Q&A session.

In the MSME and the two wheeler segments, we are open to lending to new customers, but we have tightened our underwriting standards further. In terms of liquidity, we are in a very comfortable position right now. We have cash reserves of approximately 141 crores including the undrawn CC limits. We have repaid all the debt obligations that were due from June onwards as well as all the loan moratoriums that we had availed in April and may as well. Moreover, we have raised 75 crores at very attractive rates since the start of the fiscal year to bolster our liquidity position even further. Finally to conclude, I would like to express my continued gratitude to all of our stakeholders for their continued support during these difficult times. A special note of appreciation to my field staff whose perseverance and untiring efforts have helped us report better repayment rates in July and August. On a whole, we remain quite confident that our high touch rural focus business model can withstand this ongoing COVID storm, and hopefully, emerge even stronger and more resilient than before with the learning gained during this period. On that positive note, I would request the operator to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Mantri from 2Point2 Capital. Please go ahead.

Amit Mantri: Aalok, can you talk about the divergence that is there between collections across different states or urban versus rural, because in the last quarter there was a fair bit of divergence, Gujarat had done quite well and especially some parts of Gujarat have done phenomenally well, so do we continue to see a wide divergence across state even now or has that now reduced significantly?

Aalok J. Patel: It is still there, so I think lot of this things are luck of draw, I was just joking the other day that during demon-, 80% of our portfolio was in Gujarat and I wish that was the case today because Gujarat we have seen about 85% repayments even in the month of August, which actually went down a little bit due to the rains from 87% in July, so Gujarat is doing quite well. MP we had seen somewhere around 75%, Rajasthan is doing quite well at 85%, UP is average at about 75%. The most affected one honestly is Maharashtra, which is 53% and 59%, respectively, so that is improving overall, but it is going to take little bit longer to make improvements in Maharashtra compared to lot of the other states.

Amit Mantri: What is the average cost of funds and the incremental cost of debt that you are currently raising now?

Aalok J. Patel: Average cost of funds actually I have not calculated in a while. In March, it was about 14.5% that has come down to about probably around 13 odd. We raised money from MUDRA, SIDBI, and NABARD at about 7% and the total amount we raised was about 90 crores, so that would have made the weighted average cost go down a little bit, but the funds are available at a cheap cost right now especially from the DFIs, but the market is still not very liquid right now. I think most of the banks and everybody are holding onto liquidity. We sort of have a reverse problem, so we are not looking to raise funds since we already have so much excess liquidity, so until the disbursements pick back up again, I do not think we will be going into the market to raise any more debt funds at least.

Amit Mantri: In Q1 while there has been some rundown in the loan book, but because collections have only started little bit in May and little bit more in June, so the rundown is still not significant, but in July and August with a fair bit of collections happening and very bit disbursements happening, now the portfolio is beginning to rundown already quite rapidly, so where do you see the AUM kind of stabilizing before again you start growing over the next few quarters?

Aalok J. Patel: We are anticipating about 15 odd percent decline in the AUM until it stabilizes and then picks up back again, so the decline will be partially offset by the interest accruals for the moratorium, so otherwise the drop would have been much more significant right now.

Amit Mantri: In terms of cost to income that would have a probably negative bearing with 15% drop in income, so how would the PPOP get managed in that scenario?

Aalok J. Patel: Our cost have already come down, we have a natural sort of a turnover that takes place although the turnover has gone down quite a bit, but we do have a hire increase in place, so the number of employees are reducing on a month-to-month basis, the incentives have sort of come down. The administrative costs and things like that have come down, traveling has significantly come down, so already the best efficiencies are in place, and of course, we are trying our best to reduce them further, but there is only so much you can do to be honest because you still need people on the ground level to collect the money whether you have a disbursement or do not have a disbursement, so those are the key people that you need, so on a field level there is very little cost efficiencies, you can do from a employee level perspective, but even on the interest income or the interest expense side, I think you should see a drop in that as well, thanks to cheaper funds that we have recently raised, there will be some resets with the PSU banks as the repo rates continue to go down, hopefully, that is enough to offset any decline in the income side.

Amit Mantri: Lastly, in terms of the provisions that have been made on the standalone entity level, I think now you almost have 5% kind of provisions and while your collections there are actually almost close to 95% and that is sort of moratorium has ended, so on standalone level you are already quite well covered in terms of provisions, but on microfinance entity level, do you expect to keep making more provisions, where do you expect the credit cost to eventually stabilize, it would be in the high single digit percentages or low single digit percentages kind of?

Aalok J. Patel: Amit, to be honest with you, I will answer your first question as saying yes. We expect to continue making provisions. The write-offs are little bit far away at this point because the moratorium just ended, let us see what the repayment rates look like. I think the month of September and October will be more critical to assess what kind of loan losses that you wind up actually looking at. For numerous reasons, I would rather not venture a guess of where we might wind up at, but that being said my expectation is that whatever provisions that we have right now we will probably have to continue making some more provisions in the coming quarters at least on the MFI book.

Amit Mantri: Thank you very much and Good luck with the post-moratorium phase.

Aalok J. Patel: Yes, thank you, we need it.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: Good Afternoon Aalok, thanks for taking my question, so I have two questions, one for MFI, how will the restructuring work, I am not quite sure if restructuring is allowed in the first place, but what I had heard is that some part of the MFI loans are allowed to be restructured, so what is the dispensations there and how are you going to use it?

Aalok J. Patel: I am as confused as you are about the entire restructuring, so MFIN which is our industry body has written letters to the RBI and we are awaiting that, but that being said it will be unlikely that there will be significant restructures that is being allowed on the MFI book and if you look at it from a practical standpoint, the entire moratorium exercise was one big restructure anyway, so whether it is allowed or not, hopefully, it does not come to that place where we actually have to use it, I would rather not use it if at all possible.

Abhishek Murarka: But the default option will be, so for example in August if 75% have paid and 25% have not, the default approach for you would be that for those who have not paid, you will push the EMI to the end of the tenure?

Aalok J. Patel: Correct.

Abhishek Murarka: So that would also entail some restructuring, because it will not be like for like, it will not be one month to one month, it will be a little more than one month because of the interest and the compounding?

Aalok J. Patel: That is already done, the moratorium "restructure" is already done, so that is already in place, let us say a customer has not paid in April and May and their repayment schedule has already been adjusted, recalculated, and extended by two plus installments contract, and whatever accrued interest has gone into further installments, so in lot of cases if it is early loan that was given in January or February and the customer took five months of moratorium, that might add more than even two installments of interest accruals towards the end of the loan.

Abhishek Murarka: By when do you think you will get to let us say +95% collection efficiency in MFI, just going by the rate of improvement that you are seeing, what is your gut feel?

Aalok J. Patel: I was expecting these questions in numerous different forms, I will tell you the same thing I told Amit is that I am not sure, I would rather not venture a guess at this point except to say as soon as possible. I do not know where it will reach, whether it will reach on a static pool basis, reach 95 or 98 or 90 or whatever it is, I would rather not put in guess, but I remain cautiously optimistic every month there is sequential improvements, customers who have not paid continue to pay, I think over 88% of our customers have at least one installment over the moratorium period in the last one, so that is let us see how many of more of those 12% we can convert now that the moratorium is over, but I mean there is distress. The rural people are not impacted as much as urban, but that is not to say they have not been impacted at all, asking people in what circle do you know who have SMEs and MSMEs and restaurants or have not been able to rent or not been able to open or complete, their businesses are in shambles, so you have to be very cautious, you cannot do hard recovery right now because that is going to backfire on you. You have to be sympathetic to your customers and just give them time if they need it, so you have to create a nice balance on the field. A majority of our customers are asking for time, earlier it was moratorium time. Now that the moratorium is over, our collection effort will change, earlier on customer said that give me moratorium, we could try and convince him well you will have to pay higher interest, if you have the money pay us, all that stuff, but if he insists we have to grant the moratorium. Now, we appreciate that the moratorium is over, now you have to start paying your installments, so we will have to switch our gears a little bit from whatever we explained to our customers.

Abhishek Murarka: In July-August, what has been the disbursement for MFI?

Aalok J. Patel: In July, we had no disbursements, so we started disbursements in August. It was about 12 crores in the MFI book and MSME it was I think about 4 crores, two wheeler urban we have not restarted yet, but we will start it from this month, so it is not very large numbers, but it is starting and I think it should increase more and more as time goes on, so our major concentration was towards repayments at least during the collection side.

Abhishek Murarka: Just one more question on this interest capitalization, so when I look at your AUM and we will have some collections, there is no disbursements so whatever collections are there, so the difference between that is the amount of interest that is capitalized?

Aalok J. Patel: No, I do not think so, so the amount of interest… You are talking about the moratorium interest accruals?

Abhishek Murarka: No, okay sorry, just to be clearer, your microfinance AUM let us say starts at 620 crores as of 4Q and then falls to 605 crores, there would be some collection in this Q1 and there would be a difference between your 620 minus the collections and the 605, so the difference between these two numbers would be your interest capitalized?

Aalok J. Patel: Let us table that question for now because I am still a little confused, but maybe if I visualize it on a piece of paper, it might have, I kind of know what you are trying to say, overall the collections have come in, if it was not for the interest accrual, the portfolio would have declined much more than 6 or 5 crores.

Abhishek Murarka: Right, so your 1Q collections were how much in MFI, you have given June which was around 40 crores?

Aalok J. Patel: Q1 is June only, the April it was 0%, May I believe it was 12%.

Abhishek Murarka: Okay, that is pretty close to the whole quarter number?

Aalok J. Patel: April and May there were hardly any collection because of lockdown, 90% of actual collection is……

Moderator: Thank you. The next question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Sir, most of my questions have been answered, just one thing, right now if you look at your debt to equity is pretty not that high and growth also seems like a slightly distant possibility at least for next couple of quarters, but you did mention that we will not raise money through debt, but in last quarter also if I read between the lines this quarter also it feels you are pretty open to raising money through equity, is that the correct understanding?

Aalok J. Patel: Yes, I am open to it, if it is available, I am open to consider it. It is not something that is absolutely required at this point, for future growth it will be required, but if I am going to raise it in the future anyway, I might as well have the, if it is available today versus in the future I rather take it today just to have that safety factor of additional equity, but it is not something that I am absolutely desperate for at this point.

Moderator: Thank you. The next question is from the line of Avinash Tanawade from Dalal & Broacha. Please go ahead.

Avinash Tanawade: Sir, in microfinance portfolio how much percentage of our customer are unique to us?

Aalok J. Patel: It is very difficult to pick it, we run the credit when we disburse the loans between 25% to 35%, earlier it was 40%, but in January and February somewhere around 30%-35% are no hits, but if they would have borrowed from somebody else after they took my loan, all of a sudden they are **(Inaudible)** 29.53 to me so it is difficult to answer, on a static basis, typically 25%-30% is a good estimate of that would be unique to me, that would be first-time borrowers from me.

Avinash Tanawade: What percentage of people are doing income generating activity in MFI loans?

Aalok J. Patel: 100%, we only loan money for income generating activities, that said sometimes you lend for income generating activities and it gets put into discretionary use, if I can place sure that it would reduce as much as possible but otherwise it is very difficult to track sometimes whether the money has gone, there are LUCs in place, what we call loan utilization checks in place, but something that they bought like cattle, it might be easy to verify. If it is a working capital loan for a kirana store it is hard to tell whether the money actually went into income generating activities, but when you talk in a micro level, the way I like to explain it is that these guys do not have different pockets for home use, personal use, or business use right, they have some quantity of money and whether it is for an education or food or for business, it is coming out of the same pocket, so on a micro level it is not like they are keeping balance sheet and stuff like that in place and keeping an absolute difference, this is for business use and this is for home use, so it just kind of gets mixed in.

Avinash Tanawade: How many percentage of customers having a three or more cycles with us?

Aalok J. Patel: Three or more cycles of customers, so that would be about 20%.

Avinash Tanawade: In terms of MSME loans, so most of the reading what I did was that there is a severe impact on MSME customers, so what kind of customers base we have because we have very good collection efficiency in MSME portfolio, could you just throw some light on that?

Aalok J. Patel: MSME is a pretty broad, so urban, rural, 5 crores loan, one lakh rupees loans all falls under an MSME umbrella, it depends on what flavor of MSME you are doing. For us, our MSME is basically microfinance plus, so these are customers who are running businesses that would need sort of larger ticket sizes than what you would get in a typical micro loan, but they are still rather small to approach banks or they do not have the necessary paperwork to approach banks, so our target is those rural customers, and yes, it was a very pleasant surprise our repayment rates worked out to be so well, I think the month of July was exceptionally well and we saw a lot of claw back as well in that from the previous months, so retrospective moratorium cancellations. We did not see that much in the month of August, so there was a little bit of reduction in the MSME repayment rate, but it is thankfully that is doing quite well, so I think we can concentrate a lot on MSME in future.

Avinash Tanawade: These MSME loans which we have given are we keeping any kind of security or they are purely unsecured loans?

Aalok J. Patel: These are unsecured loans, I mean the average ticket size is 70,000-75,000 type loans, very difficult to get security for such a small loan and the OPEX you would have to do to actually secure those assets would be incredibly high for such a small loan quantum, so it does not make sense, to mortgage something would cost Rs. 8000 to Rs. 10,000 at a minimum and that aside even if the customer is willing to pay for it, nobody is going to give a mortgage or anything like that on Rs. 75,000 or Rs. 1 lakh loan. We do take PDCs, in case of a default, we do have an option of filing 138 under Negotiable Instruments Act.

Avinash Tanawade: In MSME loans, how much percentage of our portfolio is in rural and urban?

Aalok J. Patel: It is all rural, 100% rural, some of it might be in semi-rural or semi-urban areas like in Indore in places like that where we are working in the outskirts, but that will be a very small portfolio, 97+ will be in rural areas.

Avinash Tanawade: In two wheelers, the disbursement mainly happened in rural areas not in urban areas, any specific reason for that?

Aalok J. Patel: Two wheelers, we have an urban book which is the largest, so that is all urban portfolio and we started a rural two wheeler portfolio for which we have about only 11 crores portfolio, so that started as a pilot and thanks to COVID that has been kind of on-hold right now, but we are ready to pick it up whenever things improve.

Avinash Tanawade: About our cost-to-income ratio, where do we see that stabilizing, there is some lower cost-to-income ratio, so how do you see that pan out in next three-four years?

Aalok J. Patel: Very difficult to predict Sir, I mean these are very difficult times, there is nothing ordinary about these times. As I told, the first question answer that we have taken a lot of steps to reduce cost but as disbursements and stuff starts picking up, very difficult to judge, but will try to keep it as stable as possible.

Avinash Tanawade: How many percentage of our employee get back on workforce?

Aalok J. Patel: I will answer the last question, but otherwise I will request to get back on the queue, what was the last question you had?

Avinash Tanawade: In terms of employee days, how many percentage of employees have resumed their work?

Aalok J. Patel: All of them have resumed or they are off the payroll, so if they have not resumed then they are not on the payroll.

Moderator: Thank you. The next question is from the line of Avadhut Joshi from NewBerry Capital. Please go ahead.

Avadhut Joshi: Good Afternoon Sir, question was about rural two wheeler loans, in the opening remarks you mentioned that it has grown to 13% of the two wheeler loan book, right?

Aalok J. Patel: Yes.

Avadhut Joshi: So did we disburse in the August two wheeler loans in rural sector?

Aalok J. Patel: This is year over year right, so it is comparing Q1 FY ’20 versus Q1 FY ’21.

Avadhut Joshi: About the disbursements, you said that you have tightened the norms, can you elaborate about it?

Aalok J. Patel: In the two wheeler side, we have started only doing cases where CIBIL scores are over 700 plus and LTVs nothing less than 70%. In the MSME side, we have the ratio of free cash flows or whatever the cash flow analysis, whatever excess cash flows they have, earlier we used to lend up to 70% of that, now we have reduced that to 50% and few other steps we have taken out from the allowed occupations, it is rather a long list but any occupation which we feel might be impacted in the long run due to COVID, we are not financing those occupations.

Moderator: Thank you. The next question is from the line of Ananth Jain, an Individual Investor. Please go ahead.

Ananth Jain: Thanks for the opportunity Sir, my first question is can you throw some light on who these 25% are in terms of what is the geographic distribution from the microfinance side where we have not been able to collect, kind of geographic distribution in terms of some other profile if you could give some idea?

Aalok J. Patel: I mean it is a very wide profile, lot of our customers are involved in allied agri or agri related, there is very few direct agris which we have in our portfolio due to risk reasons although right now that seems to be the industry that is performing the best in India according to the new GDP figures, but there is a very wide variety of occupations that we do and the ones that are not paying are the ones which are disrupted, you will have the street vendors and you will have, I do not even want to venture a guess, the small dhaba owners or some of the *kiranawallas* which were facing issues earlier, now they are opening up. Overall, there is a very wide variety of people.

Jayendra B. Patel: Fundamentally, this dairy or livestock guys are pretty much okay, it is the ancillary kind of work in the rural India things like we have been funding kirana shops or small cloth shops and stuff like that, which have remained under the lockdown and are also not classified under the essential services and hence have been facing a lot of downfall in their incomes.

Aalok J. Patel: The way somebody described it as life versus lifestyle, so people involved in life activities like food or milk or stuff like that are relatively fine and they have restarted. It is the people involved in the lifestyle activities, which are facing the issues.

Ananth Jain: It is across geography the similar thing or is it like?

Aalok J. Patel: As I said, I do not have the Maharashtra is the biggest issue, so in August Gujarat was about 85, I think I said UP, MP were both about 75, Rajasthan was 85 and Maharashtra repayment rate was about 59%, so whatever the weighted average works out to be I do not know, so that is the repayment rate of the States in August.

Ananth Jain: Thanks for this, one last question from my side, any new products that we are looking to launch?

Aalok J. Patel: I do not know, well the wheels are always churning in our head, but I do not think right now it is a good time for trying anything too new or drastic. We have started tying up with SIDBI and with the Government for the street vendors, the guarantee scheme that the Government is coming up for the street vendors, that is part of our microfinance anyway. It is just that the Government is guaranteeing a small portion of the book, part of the *Atmanirbhar* initiative, but otherwise we always do things with pilot and we rather have long pilots, so nothing in work right now.

Moderator: Thank you. The next question is from the line of Saptarshee Chatterjee from Centrum PMS. Please go ahead.

Saptarshee Chatterjee: Sir, thank you for the opportunity, my question is again on this 12% customer who have not paid any EMIs to us, so have we been able to contact all of them and like what is our collection process for these customers like you have said that we would not prefer restructuring and you have not given top-up loans also as a proactive measure, now are we able to physically reach them or like what is our collection process as of now, action items for these customers?

Aalok J. Patel: Most of them we can reach them, a lot of them are people that I said are completely disrupted and thankfully there are Government programs in place otherwise they would be in dire straits, very few of them, we are in touch with most of them either through calling or we do have a telecalling team that calls them, but I think mostly it is a high touch model, so our FOs visit them as well. Nobody has really, the vast, vast majority have shown a willingness to pay, but they require some time, so some of them have claimed that well, we will pay after the moratorium, some of them are saying that well the Government has allowed the moratorium so why are you coming right now, come in September, and in extreme cases, some of them have said that come after Diwali also, so it is rather a very mixed bag, but yes I think it is very important to concentrate on those 12% customers in the next two months especially in September and October because after the moratorium being over, we cannot restart the payments, then it will be very difficult as time goes on to restart those payments.

Jayendra B. Patel: May be his question was this, how are you getting in touch with this kind of people, it is at field level and we are calling people who has regularly calling them you so and so, nowhere and I mean nowhere in the conversation you want to do anything like a strict language or anything, all you want to find out is how is the family and has everything been okay, and only in one sentence you want to tell them that there has been a little delay in your payment and that is about it, under no circumstances you want to do any kind of harsh words, so that is my input on this.

Aalok J. Patel: You have to be sympathetic, I do not think this is a situation where muscle flexing is going to go anywhere and I think it will lead to a very disastrous situation both for us and the customer, and you have to be very sympathetic, I mean these are not willful defaulters right, they have had their life come crashing down, they have to worry about feeding their family and taking care of their life functions before they start paying the installments and I think that is fair enough, so I hold no ill will against these customers, but at the end of the day I run a business so I will have to make sure that somehow or other I get them restarted as many of them as I can.

Saptarshee Chatterjee: But we are not variably top off?

Aalok J. Patel: So as far as the top-off are concerned, I think lot of MFIs have started doing top-off loans and we on a cultural basis have never been big fans of top-off loans considering that you might evergreen your own portfolio, so fundamentally we were against it, however, I can see why some of the other MFIs are doing it because lot of these customers might need a little bit of a cash infusion to restart their businesses and stuff, but I do not know.

Jayendra B. Patel: In order to recover the old dues and you want to any top off loans, I personally feel that is not a right approach.

Aalok J. Patel: We saw that happen in some cases during demon- and stuff like that, but anyway that is neither here nor there.

Saptarshee Chatterjee: Thank you very much, it is very helpful, just on this follow-up only this kind of top-up loans which are being done by other MFIs players, does it concern you in terms of customer behavior getting changed because of these top-up loans, does it concern you?

Aalok J. Patel: It does not concern me that much, I mean these are very fundamental microfinance kind of culture issues right, it is matter of the customer psyche. I was never to convince on the top-off side, but even before COVID lot of MFIs believed in them, you start them all small, you start giving more, so I it is a difference of opinion I am not going to claim one method is better than others, but I have very specific reasons why I feel that my method is better and we will leave it at that.

Saptarshee Chatterjee: Last question is what is our yield on the MFI disbursements that you are doing in August?

Aalok J. Patel: It is as per RBI guidelines, so in August it was about 22.85 or something like that, average.

Moderator: Thank you. The next question is from the line of Parth Parekh from Prudent Corporate Advisory. Please go ahead.

Parth Parekh: Good Afternoon Sir, given the interactions you have had on the ground and our collection efficiency, what is the assessment of gross slippages in FY '21, is there a possibility for this number to reach around 5% of the loan book?

Aalok J. Patel: I will give you the same answer I gave Amit and other guys that I do not know what it will be like, it could be 5, it could be lower, it could be higher. At 5%, it is something that we can easily deal with, let us just put it that way.

Jayendra B. Patel: It is very premature at this juncture, it is only three days has gone by while the moratorium is over, so it will take little more time for us to understand at the field level.

Aalok J. Patel: Let me tell you also that there is not going to be any magic bullet once you have crossed the moratorium barrier on August 31st that all your customers will start paying, you know it is going to be at least until November or December until what I feel that some normalcy will resume in terms of disbursements and collections, so we will just have to keep working at it for the next few months, but I mean at 5% I think I will be happy to put this behind me and move on.

Parth Parekh: Sir, my second question was the yield on advances for our bigger MFIs would be somewhere around 20% while for us that ratio is closer to 25%, so does it imply that our customer profile which we are catering to is more riskier and there is a higher probability of defaults on our portfolio?

Aalok J. Patel: Who is charging 20%?

Parth Parekh: Sir, Bandhan Bank or Credit Axis will be lower than 20%, the yield on their advances.

Aalok J. Patel: Bandhan Bank maybe I agree with you although they had increased it in the last quarter of Q4, I cannot compete with banks but I know as far as MFIs are concerned, my yield is on average much lower than the average of many others, I mean if you look at even larger players than myself, it is about 24% or something like that, so couple of things I do not think our portfolio or we are targeting riskier customers. Our customers are not very, very price sensitive to begin with, so I do not think 22% or 24% that 2% is going to make a very material difference and our rates are regulated by the RBI, so unless there is a very, very large difference in the yields, so far there is enough tickets for microfinance where it has not become that competitive yet.

Moderator: Thank you. The next question is from the line of Pooja Ahuja from Equentis Wealth. Please go ahead.

Pooja Ahuja: Thanks for taking the question Sir, are we looking at used two wheeler segment?

Aalok J. Patel: No, we did that many years ago and we tried a pilot in that I think probably 10 or 12 years ago and it was a sort of a disaster and we learnt our lesson and we are not into used two wheelers. Of course, the scenario would have changed over the last one decade, this is not something that we are.

Jayendra B. Patel: Even we have tried sometimes whatever vehicles that we repossess, we try to do the financing on those repossessed assets, repossessed two wheelers but we have not been successful in this.

Aalok J. Patel: The profile of the customer who finances used vehicles seems to be riskier than the normal guy who is purchasing a new two wheeler, now I am not trying to create any stereotypes or anything here, but that is just the Math.

Moderator: Thank you. We will take the next question from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Sir, Good Evening and thank you for giving me the opportunity, my question is that most of our, this is probably the first time where we have given regular moratorium at regulatory level and for which we will be charging interest also for giving customers the moratorium, so have we seen any unrest or say any dissatisfaction on the customer side because in a normal course of situation, for example, if there was a flood and if the customers were given paying their EMIs with a delay of two or three weeks, there was no interest charge earlier, so are we seeing any dissatisfaction or unrest or some sort of you know, they sort of telling me that this is not something that we are happy to pay or something like that?

Aalok J. Patel: That is actually a very good question, that is something that we have also been concerned about, but so far the people that have actually, way the moratorium "restructure" works is that everything gets pushed forward and the access contractual EMIs will come following their last EMIs, so if they have to pay 24 installments, the extra that they will have to pay will come in the 25th or the 26th installment. If you are a customer, the moratorium interest will be very low, it will not be very large because the outstanding is very small, so the extra will be very high. We will have to worry about with the customers who had a very high principle outstanding as in their loans were originated right before the moratorium or a few months before the COVID situation arose, so for them will have maybe 20 months down the road or 12 months down the road because those ones will be the one which have a much, much higher payout requirements. Right now, the repayment started, so it does not bode well for us to say in 20 installments make sure that you remember, you will have to pay us a whole another extra installment, I do not think that is the right way to approach it, I think it is better that you, let them restart paying, let them be regular once again and then once this time is overcome in the fourth quarter or something we will approach the topic if and when required, but for the ones that have their contracts are over and they have a small amount of interest accrued payable, usually there is not much of a resistance, because it is not a very large quantity and the customers are anxious to clear-out their outstanding so they can apply for another cycle.

Moderator: Thank you. As we have no further questions, I hand over the call to the Management for closing comments.

Aalok J. Patel: Thank you so much everybody for joining us and stay well, stay safe, and I am sure that this thing will be behind us soon.

Jayendra B. Patel: Microfinance customers are very resilient customers and they have come across lots of difficult times like this be it a flood, be it earthquake, be it demonetization, and they have come out, first to get into trouble and first to get out of trouble, so absolutely we are not worried about it, and hopefully, we will come out this also and God has been kind to us, let me put it this way.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.