

## Transcript

### Conference Call of Arman Financial Services Limited

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#### *Presentation Session*

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**Moderator:** Good evening ladies and gentlemen. I am Jithin, moderator for this conference call. Welcome to the Q4 FY17 earnings conference call of Arman Financial Services Limited hosted by Antique Stock Broking Limited. We have with us today the management from Arman Financial, represented by Mr. Jayendra Patel, MD, Mr. Aalok Patel, ED and Mr. Amit Manakiwala, Whole Time Director. At this moment, all participants are in the listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press \* and 1 on your telephone keypad. Please note this conference is recorded. Now, I would like to hand over the floor to Mr. Digant Haria from Antique Stock Broking Limited. Over to you sir.

**Digant Haria:** Hi. A very good evening to all of you. Thanks to the participants and thanks to the management for taking this time out on a Friday evening. So, today we are going to discuss the quarterly performance of Arman and probably what lies ahead. So, it has relatively been a tough quarter for all the microfinance companies, as it has been one of the worst affected sectors post demonetization. So, let us hear it out from the management about how the quarter was and what the future looks like. So, over to you Jayendra-bhai, you can give us an overview of how things are how things are looking forward.

**Jayendra Patel:** Thanks Digant. Ladies and gentlemen, thanks again for joining us for the FY17 year end concall. For obvious reasons, this quarter's conference call is highly anticipated event, as many of you are wondering what exactly is going on with the company post demonetization, especially in the microfinance division. To that extent we will spend the next hour trying to answer your questions regarding the overall state of the affairs of the company and the industry as a whole. We put a little extra effort into this quarter's press release to explain in our own words, what exactly happened. The press release was uploaded onto our website and BSE, NSE four days ago. And I hope you had the time to review it.

The performance of the company was impacted due to the challenges in the microfinance segment post the demonetization. In my twenty five years career at Arman and I am sixty five years old; in my twenty five years career at Arman, this is the first quarter, where we have declared a loss, which stood at 74 lakhs. 74 lakhs is not the material issue, but the issue is that in my so many years in the business, we have declared a loss because of not our own deeds, but by an event completely out of our control. Thanks to our performance in the months leading up to demonetization, we ended up the year with okay results.

The income from operations increased 32% from 41 crores to 54 crores. Profit before taxes has decreased from 12.1 crores to 9.9 crores and 18% reduction in there. This drop is primarily due to the loss in the post quarter due to three main reasons. the loss in

income due to negligible disbursement in the four months following demonetization in the microfinance division. The vast majority of our loans are about one year. So, the portfolio reduced about 30%, which reduced our income generating assets. We are working hard to increase asset under the management that is AUM again.

Operating expenses remained largely fixed, even though the AUM has reduced in the microfinance segment. Pre demonetization we had put forth huge efforts and I mean huge efforts on expanding our capacity by opening new branches and training new staffs to meet our FY17 and FY18 targets. During the first seven months of this year, we had opened twenty five branches from a total of fifty five to eighty branches. This put a huge load on our operating expenses post demonetization once the disbursement stopped, that means the disbursement stopped, but the operating expenses post the demonetization was very heavy, because of the expansions in the branches.

Consolidated write offs increased from Rs.73 lakhs to Rs.3.2 crores in the past fiscal year, mostly taken in the last quarter. This was mostly taken in the last quarter. Microfinance write offs increased from Rs.21 lakhs to Rs.2.3 crores from FY16 to FY17. These write offs were largely due to the effects of demonetization, while the RBI provided ninety days NPA provisioning relief, we believed it was prudent to be proactive by writing off all the high risk loans which did not start repayment post November 8<sup>th</sup>, despite our best efforts. This is not to say that recovery effort will not continue of these written off loans.

Total consolidated disbursement in the past year, despite disbursements being highly subdued four months of the year was 240 crores; against disbursement of last year was 247 crores. So, disbursement stayed around the same year as compared to the last year, even though four months were very silent.

In Namra Finance, the portfolio at risk of sixty days or more that means PAR 60+ is 4.27%. Let me repeat that again, portfolio at risk sixty days, PAR 60 is 4.27 as of March 31<sup>st</sup>, 2017. While this is lower than the industry at large, as data from the Equifax indicates a PAR 60+ of 9.8% across India during the same period; We are actively working on numerous strategies as we seek to increase recovery rates. The good news is that all the disbursements we have made post demonetization, we have 99.9% recovery rate. So, this repayment issue has not become a systemic risk. Again I am repeating that the post demonetization disbursement has absolutely zero overdue. We are working at 99.9% recovery rate. Arman, which is in two-wheelers has an NPA which stands at 2.64%, while the new MSME division, we have started the MSME division, which stands at 0%. We have absolutely zero bad debts or NPA on MSME.

Two wheeler segments and MSME segments were not materially impacted by the demonetization. Despite low slow disbursement, November through January in both these segments, the overall AUM increased 36% YoY in two-wheeler, increasing from 55 crores to 75 crores. MSME portfolio stood at 6 crores, but is growing quickly. Repayment rates while reduced during November and December, quickly returned to normal in Q4 FY17.

I know ladies and gentlemen that the last few months have been tough on us, on all of us. However, our company is very resilient. Over the twenty five years we have been in business, the industry has faced many crisis and we have always come out on the other side better than going in. In the long term, demonetization will be a speed bump for the company. We are working on our next year goals with the renewed focus and with an aim to increase disbursement, stabilize our cost structures, increase repayment rates and

increase our geographic and product diversification. Let me also tell you that that these are the things, which are always a continuous process and one should not stop working on it. Let us also accept the fact that past is the past and it does not bode well to dwell too long on demonetization. Demonetization has come and gone. It is done. And let us not worry about the things that were not because of our own creation. One quarter is not going to break us. On the contrary we are going to work with more zeal, more spirit and your company is going to get more stronger and more flexible.

With this, I end my statement. And I now open the line for questions and answers. Thank you.

#### *Question and Answer Session*

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**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your question, you may do so by pressing \* and 1 again.

Sir, we have the first question coming from Ms. Richa Agrawal from Equitymaster. Please proceed ma'am.

**Richa Agrawal:** Sir, now that you are planning to increase the portfolio for MSME, I just wanted to understand its impact on the risk profile, the NPA, accepted NPAs and all.

**Aalok Patel:** Okay. So, the NPA in the MSME sector right now are nil, which is not to say that we expect them to stay nil going forward. It is just that the portfolio is pretty young at the moment. The real disbursement didn't actually start until September onwards. And even then, in demonetization period, they had stopped. So, right now we have about 2500 clients as of date. And things are going well. But, we are expecting about the NPA levels or loan loss levels of about 3% in the long term for the MSME segment. So, that has been priced accordingly.

**Richa Agrawal:** Okay. And sir, the ticket size is, average ticket size for MSME?

**Aalok Patel:** We are targeting the segment between 50000 and 1,50,000.

**Richa Agrawal:** Okay. And sir, going forward how many, like in FY18, are you planning to open new branches for MSME? And if so, how many branches are expected to be opened?

**Aalok Patel:** Yeah, we are planning to end the year with about twenty five branches in MSME. Currently, we have about six disbursing branches, and eight open branches. So, about couple of branches every month we are planning to roll out.

**Richa Agrawal:** Alright. Thank you sir.

**Moderator:** Thank you ma'am. Sir, the next question comes from Mr. Kunal Perik, Individual Investor. Please proceed sir.

**Kunal Perik:** Hi. So, I have couple of questions. My first question is regarding options that have been given to the employees. The notification on exchanges had come that we have given 97500 stock options for a price of 50. I just wanted to understand, have we discounted too much? So, that is my first question.

**Aalok Patel:** That is a fair question. First of all let me start by saying that, ESOPs have been something that has been in the works for the last several years. Many investors have suggested that we issue ESOPs to our key employees. Now, those employees does not include us, either me, Jayendra-bhai or Amit-bhai sitting here. We are part of the promoter group. So, we are not eligible for the options. What we have tried to do is that for the long term employees who are upper management or middle management, we have tried to give them ownership interest in the company, where their interests are aligned with everybody else's. Now, if you give it at Rs.180 let's say or Rs.190, which is the market price, there is no benefit per se to the employee. They can just purchase it in the market. So, what price would balance it is the right question. But, I will also tell you that we have kept these ESOPs not just for C-level positions, we have kept it for our district managers and area managers and everybody in between. So, if you keep the price too high, their salary will not allow them to participate in them. However, we have kept the lock in very, very long. So, as you know in the ESOPs there is the one year cooling period from the time they were granted to when they vest. Then after that will vest over a period of three years. And after the shares are allocated, even then there is a lock in of one year. So, this is a very, very long vesting period. If they resign in between or if they are terminated in between or anything like that, obviously those options will never vest. So, I don't expect the full 97000 to be even be used. But the price, it was decided very calculatively. We asked a lot of experts, the board discussed about it for a long time. There are tax implications as you know of issuing it at lower than the market price. So, balancing all of those things out, we came out with Rs.50. Now, was it too high or too low? I don't know. There were BSE / NSE approvals. So, all of those things were there. I think we have tried to put it at a price where it benefited everybody, but that being said, I am open to any criticisms you might have about that.

**Kunal Perik:** Typically what options in terms of pricing have we considered? Like, did we take six months average price of the stock or which many companies follow or was there a formula behind the pricing or was it arbitrary?

**Aalok Patel:** Formula what you are referring to is, it is for stuff like warrants. You are talking about the SEBI formula, in which you take the higher of either six months or two weeks of the stock price. For ESOP, this is a different formula altogether. And SEBI just pretty much says that you have to issue them over par value of Rs.10. So many unlisted companies give a stock option at just the par value, because if the employee sticks around long enough for them to get listed, those are obviously worth a lot more. In our case, we are already listed, so you can consider this as a variable compensation for the employees, considering their loyalty to the company. So, don't look at it as Rs.50 or Rs.100 or Rs.150. Overall, considering we have an outstanding share of 69 lakhs, this is a very small portion of dilution. But, we impact that this will hopefully bring will far exceed any value loss in terms of dilution. So, that is my take on this.

**Kunal Perik:** Okay. And my other question is, in terms of microfinance, how confident are we about growth in about coming two to three years, because demonetization was a one off event as you have rightly mentioned, but are we still hopeful

of the growth that we have witnessed in the last three years or is the MSME, a reactive step because of the headwinds we have seen?

**Aalok Patel:** Yes and no; there is no easy way to answer this question. But, it is an excellent question in the sense that what are we expecting out of microfinance in the future. If you ask for my personal opinion, I don't think the growth rates are going to be as high as we saw them in the last three or four years across the industry. This is for several reasons. But demonetization being one experience and you have the MSME portfolio and after demonetization, as a company I think we have noted in our press release as well that we want to concentrate on product diversification. So, in the next three to four years, we don't want our microfinance portfolio to be bigger than about 50%-60% of the overall book. So, we are going to move cautiously. While we have always moved cautiously and we have always been conservative; but, I think from the industry as a whole you will see that the growth rates are sort of subdued. They were the outliers who are growing at 200%-300%, I think that is going to stop, which is going to bring the overall average down. But, for the companies such as us, who have always grown at a reasonable rate, I don't think we are going to see that much of an impact on the growth side.

**Jayendra Patel:** This is Jayendra here. What I also feel is that the demonetization has brought in some lessons to the microfinance industry like Aalok said, some outliers which had shown 200%-300% growth. I think it has shown a red light to that growth level. And this has triggered those microfinance companies which were just growing out of bounds. So, I personally feel that there was some bright side to the demonetization that people will hopefully get some lessons out of it.

**Kunal Perik:** Right. Also in the press release we mentioned about cashless transactions now being incorporated by our company. But, in the last concall we said that the cashless was a challenge as far as the sector was concerned, because the interest gets debited on the first day and also the customers don't have an account. So, how are we now? So, is cashless firstly beneficial for us and the customer? And should we invest heavily? So, I just wanted some clarity here.

**Aalok Patel:** So, the cashless that we are talking about right now is in the form of disbursements only. I think the industry is little bit far away from getting cashless recovery or repayments. That for the foreseeable future will be in cash. But, cashless disbursement however, you are right, it is tricky. It is not something that we can implement right away. But, instead of that we are heading towards..... this is what the Central Government has been pushing and the RBI has been pushing. So, rather than fight it, you have to accept the inevitable and make serious efforts going towards cashless. So, what we have done is, for our State of UP, we have shifted focus to 100% bank based disbursement. So, that has been going relatively okay. I think that lot of the customers, if you don't give them an option saying that, if you need the loan it has to be via bank account, somehow or the other the bank account magically appears or they will manage opening one within a short period. Of course, geographically that differs from place to place. And we have also tied up with BC of SBI to help us open accounts; they say that open accounts in four days for us if they need to. During the whole Jan-Dhan Yojana drive, lot of accounts were opened, but they weren't used, so they were dormant, customers have forgotten about their accounts, they have forgotten about their account numbers. So, it is not very easy as you rightfully said. But, I think it is the inevitable fact that we will have to accept and take these efforts going towards that route.

**Kunal Perik:** Okay. I will go back in the queue again, if I have more questions and will join. Thank you.

**Moderator:** Thank you sir. Sir, the next question comes from Mr. Amit Jeswani from Stallion Asset. Please proceed sir.

**Amit Jeswani:** Hi sir. Sir, my first question is about the recovery rate post loan waiver which happened in UP, because my concern is that we have a large portfolio exposure in Gujarat and that later in the year we have Gujarat elections coming up. So, there is an (*not clear*) that politicians might say for a loan waiver again. So, I just want to understand what was the attitude of borrowers after the UP loan waiver?

**Aalok Patel:** This is the strange part of repayment issues we have been facing after demonetization is that nothing is quite predictable. So, we along with the industry, we were expecting problems to arise in the UP portfolio post the loan waiver announcement. But, surprisingly no problems came. And I am not complaining about that. I think it is fantastic. In fact in some areas we saw an improvement after the loan waiver. But, there are many such examples post demonetization that things that you are expecting kind of went out of the window and things that you never imagined in a million years to have an impact, did have an impact. To give you an example, let's say UP versus Bihar. So, UP portfolio, many MFIs were facing tremendous amounts of issues post demonetization. Bihar, being demographically similar I would say to UP, had an amazing repayment rate. What is the explanation for that? I don't know. If you ask five different experts, they will give you five different answers. But, sometimes these things just work on a random basis. But, to answer your question, the UP portfolio in fact improved little bit for us post the loan waiver scheme.

**Amit Jeswani:** Okay. And these MSME loans that we have started giving out, these are secured or unsecured loans?

**Aalok Patel:** These are mostly are unsecure, but we do take PDCs in the event and we do take a guarantor as well. But, it is not a LAP loan. So, it is not a loan against security, because the loan amount is still quite small. So, you want to keep the operating cost down. What we found was there is, we claim that this is MSME, but most banks and other companies start their MSME loans at 5 lakhs plus. Most micro loans are 50000 or less. So, what we found was a little bit of a vacuum between the 50000 and the 1,50,000 market. But, we couldn't really go for a joint liability in that case, because joint liability breaks apart more than 40000-50000 for those kinds of loans. So, what we did was, we created a very rigorous, sort of much more rigorous I should say, underwriting process than microfinance. We took a guarantor. We took PDCs. We tried to do a cashless kind of a disbursement model. And we made sure that we got the cash flow right and that there was supporting documents for that. So, the operating costs were a little bit higher, but the profit margins or the margins are also higher. So, we kind of compensate for that in that aspect.

**Amit Jeswani:** So, what would be the average interest rate charged here on the MSME portion?

**Aalok Patel:** The MSME is about, the industry average is about 30%, which is where we are right now. I know that sounds a little high. But, given the operating cost

and the expected loan loss of about 3% in the industry that is about what the going rate is at the moment.

**Amit Jeswani:** Okay, got it. Just one last question. Does the borrower data from Equifax or High Mark include the information of money borrowed from the self help groups, banks, NGOs?

**Aalok Patel:** So, High Mark has been trying to get all of those uploaded. But, basically lot of the BC data is there. So, not a lot of the SHG stuff is there or the NGOs. But a lot of the bank stuff is there. Lot of the BC stuff is there. So, it is getting better and better. But, it is definitely not a 100% there yet.

**Amit Jeswani:** Okay. One last question again, sorry. But, would Jeevan and let's say small finance banks, do they track data from small finance banks or do they not track data of the small finance banks?

**Aalok Patel:** They do track data of the small finance banks. In fact RBI has made it mandatory for all banks, financial institutions or anybody that comes under their purview to at least share the data with all four credit bureaus. That includes CIBIL, High Mark, Equifax and Experian. So, we are currently sharing all of our data with all four credit bureaus. And I would assume that everybody else who is governed by RBI is as well.

**Amit Jeswani:** Thank you sir. I will get back in the queue. Thank you so much. And good quarter actually, very good quarter. Thank you so much.

**Moderator:** Thank you sir. Sir, the next question comes from Mr. Pravin I from Cholamandalam Securities. Please proceed sir.

**Pravin I:** Hello sir. My first question was on the NPA recognition. So, now it is based on 120 days DPD, is it?

**Aalok Patel:** Yeah, for the asset finance for Arman book is based on 120 days Past Due. For microfinance, there is a different formula. However, microfinance is ninety days recognition of NPA. But, RBI has given certain dispensation post demonetization for ninety days, by giving extra ninety days. So, I think some companies have taken advantage of that some have not. For us it is kind of a partial thing that we did take a write down of about 2.5 crores, if I am not mistaken, in the microfinance books even though we didn't have to at the moment for all the assets that we felt were the riskiest. Essentially the customers who had not paid us a dime from November to March 31<sup>st</sup>, so we wrote them all off and that is not to say our collection efforts are not going on. We are continuously following it up. In some cases we have initiated legal as well. But, I think with continuous follow up, we should see some money come back from even the riskier portfolio.

**Pravin I:** Okay sir. Sir, my second question was on this Nashik branch sir. So, you were saying that the recollections were around only 70%. So, how exactly is it right now or how is the situation there right now?

**Aalok Patel:** Nashik is just as bad. So, Nashik has not improved due to political reasons. So Maharashtra, I don't know if you know what is going on in Maharashtra. I think Nashik is one place, but there are places like Amaravati, Wardha if I

am pronouncing that correct, all of those areas are very heavily impacted by political influences. So, we are still following it up. But, the situation remains problematic. We only have one branch which is affected in Maharashtra, which is Nashik. All the other ones are operating great, 98% plus repayment rate.

**Pravin I:** So, what percentage of your AUM constitutes Nashik sir?

**Aalok Patel:** Nashik has a portfolio of about 1.5 cr, it is about a percent and a half, less than that. It is not a very large percent.

**Jayendra Patel:** It is only 1 crore of rupees in Nashik.

**Aalok Patel:** We started it in July only.

**Jayendra Patel:** Yeah, we started it in July. It is nothing considerably high at all.

**Pravin I:** Yeah sir. It is hardly something. Sir, now that we are foraying into this MSME segment, so what kind of growth are we looking at? Are we confident, I was going through this press release, so are we confident of reaching of those 80 crores of AUM by the end of financial year 2018?

**Aalok Patel:** Yeah, actually I don't know how you came across that number, but that is exactly approximately our target for the.....

**Pravin I:** No, I was just going through, I think it was in one of the concalls or I really don't know where I read that.

**Aalok Patel:** Oh really, okay. I must have forgotten where I mentioned it. But yes, it is about 80 crores to 90 crores is our rough target for the coming year.

**Pravin I:** Okay. Sir, just wanted to understand.

**Aalok Patel:** We have about eight branches operational open to date. We will probably open another dozen branches or so this year. Let us see. We started MSME as a pilot. We conceptualized it about in the June of last year, June to July. It took us a few months to even make our first disbursement. So, it hasn't been a year yet. I would still like it to go through at least one cycle to understand what issues can come up and just to kind of learn about the industry more before we make too high of a commitment of that.

**Jayendra Patel:** Why don't you tell him how much, what is the NPA level is?

**Aalok Patel:** There is no NPA. There is absolutely zero NPA. We have all the accounts which is about what? 2300?

**Jayendra Patel:** About 2500 accounts and everybody is paying right on the dot.

**Aalok Patel:** So, that is encouraging, but let us see.

**Pravin I:** Sir, actually what I was trying to understand is, what generally is the credit assessment process followed for disbursing the MSME loans?



**Aalok Patel:** Yeah, so we do a lot of.....first of all it is mostly business owners or people who have been in business for at least three years. We heavy reference checks. So, let us suppose, you are a storekeeper. So, we will go into the surrounding stores for reference checks and get a rough idea on foot traffic. We have the concept of branch manager and BRM, the branch risk manager. So, the branch risk manager is solely concentrating on asset quality and nothing related to sales, while the branch manager has to worry about both. He also pays a very heavy emphasis on the cash flow analysis, which has to be supported by the documentation. So, in some cases the BRM can get comfort based on the industry is operating. So for example, he knows that if he is running a kirana store, based on X amount of square footage, he can generate Y amount of an income if he is in this particular area. So, we can do those kind of estimates; let's say, if he has seven or eight buffaloes, he can very easily estimate the cash flows based on the kind of buffaloes and the estimated amount of milk that they can produce. Other than the cash flow analysis, his expenses, we sort of try to not take his word for it, but we know if there is four people in the household, they will at least spend X amount for food, X for medicals and those kind of things. So, plus we take a guarantor as well, somebody from his reference and we will take a PDC from them, plus there is a CIBIL check for both the member and the guarantor. And we also do a High Mark check for both the guarantor, the client and the both their spouses in the event if it is men and the females have taken loans. So, that also goes into the cash flow analysis, how many loans does he or she has outstanding from the credit report?

**Pravin I:** Okay. And sir, what generally is the tenure of these loans sir?

**Aalok Patel:** Twenty four months generally.

**Pravin I:** Okay, generally twenty four months. And coming to this MSME segment, sorry, the microfinance segments sir, so you were saying that you were kind of peaking out at 26 crores of disbursals in the month of October, if I am not wrong. So, going forward what sort of disbursements can we expect in the quarters, let's say for financial year 2018, can we expect 60 crores of disbursals every quarter?

**Aalok Patel:** You can at least expect about 60 crores this first quarter, but that will increase probably 20 crores every quarter after that. So, suddenly it is not going to be that low. I don't want to commit at this point and until we see a couple of more months of recovery that what our targets are for FY18 as far as the microfinance portfolio goes. But, it is definitely not going to be 60 crores a quarter, it is going to be lot more. We are much more enthusiastic. We are still opening branches. So, it is not like we have given up on the microfinance business. Just to give you an example, we have disbursed about 25 crores this past month in May. So, we are right there at the peak of what we were pre demonetization and it should go up only after that.

**Pravin I:** Okay sir. I will join the queue sir again. Thank you.

**Moderator:** Thank you so much sir. Sir, we have got the next question coming from Ms. Siji Phillip from Religare Securities. Please proceed sir.

**Siji Phillip:** Good afternoon sir. I just had a couple of questions. First of all, what was the provisioning amount this quarter?

**Aalok Patel:** The NPA provisioning?

**Siji Phillip:** Yeah.

**Aalok Patel:** It was for the year it was I think 1.7 crores. For the quarter, I will have to get back to you. But, I think there was a little bit of a reversal in the provisioning based on the NPA figures. So, I am not exactly sure for the quarter, but for the year it was 1.7 crores versus 1.5 crores last year.

**Siji Phillip:** Okay. And sir, what will be your, as in what would be your outlook in the next couple of years? So, I suppose this would be the worst quarter, the worst that we could expect. So, going forward how do you see the disbursements, the AUMs and the NPAs panning out?

**Aalok Patel:** No the worst is far behind us. I think that you should see steady improvements quarter after quarter. So, as we said that we are continuing with our expected targets for FY18 and along with that we are going to concentrate on the repayments as well. So, I am not exactly sure what, how else to answer that question. We are for the next two to three years it is going to be similar to what the targets which we had previous years, as in about 50% to 60% growth year over year.

**Siji Phillip:** Sir, do you expect that, because we had some disruption in the last two quarters. So, maybe FY18 we could see a pick up happening, better than in the previous years to cover up for the two quarters of disruption?

**Aalok Patel:** No, no cover up accounting. I know that there are people who say oh, if you have this much bad debt, just double the portfolio, so the bad debt halves. We don't really use those kinds of strategies, because then you are just playing with numbers rather than doing good business, and you keep digging yourselves in a hole. So, I don't think so that our tactics are going to change to try and cover up for the last two quarters.

**Siji Phillip:** Okay and what about your collection efficiency? Are we seeing an improvement overall? Do you still feel that it has to go to the same levels as before?

**Aalok Patel:** We are definitely seeing a collection efficiency improvement. In fact many of our States have returned almost back to normal, like UP and MP are all 97% plus, MP is 98%. We have a separate staff as well and a separate person to deal with collections as well. So, repayment rates are definitely improving and we expect it to continue to improve. However, following that up on OD is, it is a long term thing. So, I don't think that we are going to see immediate results for the par nineties. I don't think you will see the results right away. But, for numerous branches earlier, I have collected money even after one year of overdue. So, the trick of the game is to continuously follow up. And if you do that, lot of your money will come back.

**Siji Phillip:** And our disbursements are also now as what it was earlier, as in now the disruption now is totally over?

**Aalok Patel:** Yeah, the disbursement now has normalized. That is also after.....we have about a few branches that are heavily impacted that we have closed

disbursement. So, those are only repayments branches. So, even after that our disbursements are higher. So, on an average the branches are disbursing even more than they were in October. So, we are being very cautious also right now of starting disbursements.

**Siji Phillip:** So, do we have any....

**Moderator:** Sorry to interrupt you. Sorry to interrupt you ma'am. I would request you to join the queue back again for more questions.

**Siji Phillip:** Just one more question. What is the kind of AUM you are expecting by FY18, FY19?

**Aalok Patel:** We haven't finalized those figures. I apologize. Usually we do provide for it. But, for the microfinance, we will announce it shortly.

**Siji Phillip:** Okay, thank you sir.

**Moderator:** Thank you ma'am. The next question comes from Mr. Shiv Kumar from Unify Capital. Please proceed sir.

Hello Mr. Shiv you are there?

**Shiv Kumar:** Sorry, thank you for the opportunity. Sir, in FY17 we have moved from fifty five branches to eighty branches. So, for FY 18 what is your target in terms of branch expansion and what are the States where you will be taking up this expansion?

**Aalok Patel:** Shiva, your voice was cutting off and there was a lot of background noise but, I think I got the gist of your question. You are asking where the majority of the branches have been opened, right?

**Shiv Kumar:** And even going forward sir, where you will be targeting for further branch expansion.

**Aalok Patel:** Yeah, we are targeting mostly MP, UP and (audio break), mostly in UP as well, because we feel there is a vacuum now in UP and our portfolio has performed very well compared to many of the competitors in areas. So, I think UP is one area. MP is definitely an area and in Maharashtra, we will continue to expand cautiously, specifically staying away from the heavily affected areas.

**Shiv Kumar:** Right. Sir, my second question is on the MSME segment sir. Do you see a synergy between the MFI segment and the MSME segment, as in, does the MF add for your MSME loans? Or, are there any synergies even in terms of the employee strength?

**Aalok Patel:** Originally when we had conceptualized the MSME, we thought that once the microfinance clients mature we can service him through an individual loans of MSME. But, what we found was that in many cases, even if the customer has been with you for four-five cycles or four-five years, they still haven't reached that kind of financial maturity to be automatically eligible for an individual loan. They might still be

okay if there is group loan or the microfinance loan. But, they still haven't got the maturity to handle a Rs.1,50,000 individual loans or their business hasn't progressed enough that way. So yes and no, while we do have a referral system for our microfinance to MSME, we don't completely rely on that. All of our marketing is done by a separate team altogether. And I think the kind of customers we are targeting is also different than the microfinance.

**Shiv Kumar:** Right. Sir, my final question is on the cost of borrowings. What has been your incremental cost of borrowing over the quarter?

**Aalok Patel:** It has been about 14.5, so there hasn't been much change. That is all inclusive, that processing fees and all.

**Shiv Kumar:** And with respect to bad debt sir, have you been able to raise any incremental bad debt and at what rate?

**Aalok Patel:** Incremental what?

**Shiv Kumar:** Bad debt from the bank sir.

**Aalok Patel:** Yeah, we have with several banks. We got more, in fact we were sitting on a lot of sanctions pre-demonetization and we had to delay the disbursements for those, because the repayments were coming in and we were sitting on cash which is also an expensive proposition. So, I don't think we have seen any hesitance by the banks to give us money. But, we do have a lot to cash at the moment. So, we haven't really pursued it as much. So, I don't know if there is a drop in the bank policies or anything towards the MFI sector, but not to my knowledge, no.

**Shiv Kumar:** Right. Thank you sir and all the best for FY18 sir.

**Aalok Patel:** Thank you, thank you.

**Moderator:** Thank you sir. Sir, the next question comes from Mr. Anand from Sameeksha Capital. Please proceed sir.

**Anand:** Good evening sir. So, my first question is about our payment cycle. So, I was looking at the industry data and in general for weekly collections, the DPD has been much lesser than for fortnightly or monthly. So, given that industry wide experience, is there any consideration of change in our strategy to weekly collection strategy than from fortnightly?

**Aalok Patel:** So, there has been a lot of data floating around about weekly versus fortnightly versus monthly. During the original demonetization, there was a claim saying that weekly collections have been more favorable, because most of the installments have been less than 500. So, the clients could pay in Rs.100 notes or Rs.50 notes or what have you. I don't have any concrete data available with me which says one is better than the other. But, it is quite obvious that the weekly might be better in conditions such as demonetization, because the installments become lower. So, that being said, weekly might be little less risky in those cases, but the operating cost also increases, because remember you have to go visit the client, four times a month versus twice a

month. So, where you can find the optimal balance, I am not sure. But, at the moment we have no plans in the works to change it from a fortnightly basis to a weekly model.

**Jayendra Patel:** We have a fortnightly collection, while most of the MFIs have turned to monthly collections. We have our own reasons for it, trying to balance risks versus costs. But, we are going to continue with the fortnightly collections.

**Anand:** Okay. And sir, you shared some number about MSME in the presentation, the press release. There you mentioned that our book is around 6 crores at the end of this quarter end and clients are around 2100. So, this ballpark works out to around Rs.25000 per client, whereas our target is between 50000 and 1,50,000. So, can you help us understand the reason?

**Aalok Patel:** We have about 2500 customers right now and the portfolio will be about 9 crores today.

**Anand:** Okay. So, the difference was, it is as of today and not as of 31<sup>st</sup>.

**Aalok Patel:** Yeah, it is as of today, I am sorry. So, as of 31<sup>st</sup> I don't know how many customers, but it will be less than that.

**Anand:** So, there was some confusion, fine. And sir, in general the tenure, what will be the PAR 60 for vehicle finance.

**Aalok Patel:** Vehicle finance, I can look it up for you right now, about 3.6%.

**Anand:** Okay, fine sir. I will come back in the queue if I have any more questions.

**Moderator:** Thank you sir. There are no further questions. Now, I would like to handover the floor to Mr. Digant Haria for closing comments. Over to you sir.

**Digant Haria:** Thank you Jayendra-bhai, thank you Aalok for giving a good overview of the situation on the ground and things can further look for the future. And thank you everyone for joining. Have a great evening everyone.

**Jayendra Patel:** Thank you.

**Aalok Patel:** Thank you.

**Moderator:** Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant evening.

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**Note:**

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.