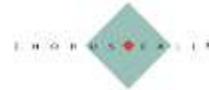




“Arman Financial Services Limited Q2 FY22 Results Conference Call”

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Moderator: Ladies and gentlemen, welcome to the Q2 FY2022 Results Conference Call of Arman Financial Services hosted by Emkay Global Financial Services. Mr. Jayendra Patel - Vice Chairman & Managing Director, Mr. Aalok Patel - Joint Managing Director, and Mr. Vivek Modi - Group CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manjith Nair from Emkay Global Financial Services. Thank you and over to you Sir!

Manjith Nair: This is Manjith here. Good evening everyone. I would like to welcome the management team and thank them for this opportunity. I shall now hand over the call to the management for their opening remarks. Over to you gentlemen!

Jayendra Patel: Thank you Mr. Manjith. Jayendra here, Managing Director of the company and I would like to first of all say good evening, everyone and thanks for taking time out of your busy schedule to join us over this call to discuss our financial performance for the second quarter and half year ended FY22. We have issued a detailed press release and investor presentation for the quarter and I hope all of you had a chance to review it.

I will start with the brief overview of the industry and business during the last quarter and then we will move to our financial performance. The quarter was marked by a rebound in rural economy along with the improving consumer sentiments and unlocking of most geographies post the second wave of COVID-19. Our cautious approach and conviction along with the experiences gained during the 2020 lockdowns helped us navigate smoothly through the challenging times. The vaccination programs organized by the company across locations helped in vaccinating majority of our employees, which will enable smooth running of operations in future and more closer customer interaction.

As I had said in the past our customers have a tendency to bounce back faster, which was clearly seen during the last quarter with the rise in collections and improved disbursements on the back of pickup in demand. Moreover, continued government support towards NBFC's and various relief packages for the revival of economy in the form of loan guarantee schemes ECLGS and MSME revival schemes will surely bring the economy back on track.

I will now give a brief overview of our financial performance for the second quarter and post that touch upon liquidity, disbursement, and collections in more detail. Coming to the brief overview of our financial performance for the quarter, consolidated loan book as on September 30, 2021 stands at Rs. 908 Crores higher by 29% year-over-year. Substantial

reduction in COVID-19 cases and unlocking of economy across most geographies led to higher AUM growth. Segmental AUM for microfinance stood at Rs. 742 Crores higher by 42% Y-o-Y and MSME stood at Rs.125 Crores higher by 5% while two wheeler stands at Rs.42 Crores down by 33% Y-o-Y as two wheeler sales declined in the last one year given the challenging economic environment coupled with higher repayment rates led to a rundown in the portfolio. Consolidated loan disbursement during Q2 FY2022 stood at Rs.267 Crores up by 425% Y-o-Y as the COVID situation started getting normalized and even the rural economy witnessed an uptick demand. The total MSME and two wheeler disbursement in Q2 were Rs.35 Crores and Rs.11 Crores respectively while microfinance disbursement stood at Rs.220 Crores higher by 469% mainly due to bounce back in rural economy post second wave and our increasing effort with the performance of the post COVID disbursement asset quality. Gross total income fell down marginally by 2% Y-o-Y to Rs.51 Crores and net total income declined by 6% year-on-year to Rs.31 Crores. Fall in gross income mainly due to the fall in interest margins on microfinance portfolio as the yield on that portfolio is regulated by the Reserve Bank of India. Profit after tax increased by 220% Y-o-Y to Rs.4.9 Crores aided by lower provisioning requirement due to better asset quality of the loans disbursed post COVID-19 since September 2020. Consolidated gross NPA stood at 5.6% and the net NPA stood at 1.1% for September 2021. Loan impairment cost of the quarter reduced to Rs.8.7 Crores, as the company prudently took extra provisions of Rs.4.1 Crores and took write offs of Rs.4.6 Crores. Higher provisioning coverage will help the company deal with potential asset quality risk arising on account of COVID-19 induced disruptions while aggressive write offs are aimed at reducing the NPA burden of pre-COVID doubtful assets. Cumulative total provision stood at Rs.62.1 Crores as on September 30, 2021 covering 6.8% of the book AUM. The company enjoys healthy liquidity position with Rs.147 Crores in cash and bank balance, liquid, investments and undrawn CC limits. The company has repaid all its debt obligations that were due in Q2 FY2022 with debt equity ratio of 4.05x as on September 30, 2021 and shareholders equity stood at about Rs.194 Crores as on September 30, 2021. ALM continues to remain positive and the company continues to have access to new source of funds due to company's robust balance sheet and prudent lending practices. The company recently received a rating upgrade of A minus from Acuité with a stable outlook despite strong headwinds. I repeat we are now into an A level of credit ratings, which I am absolutely proud to announce that most of the NBFCs, most of the MFIs are not facing such a favorable wind. We are lucky to have our rating upgraded from triple B minus to A minus.

Coming to the collections, collections in microfinance business which were affected during Q1 FY2022 due to second wave has recovered consistently during Q2 FY2022. Collections were severely impacted mainly due to COVID second wave restrictions since our collection executives were not able to visit door-to-door for recovery; however, with the easing of restrictions there is steady recovery in collections in Q2 FY2022. Post COVID

disbursement loan book collection efficiency stands at 99%, which I am very proud of it I must say that whatever disbursements we have made post COVID we are enjoying absolutely 99% recovery rate. Collections picked up as the repayment rates reached 92% in October 2021 from 89% in July 2021. Two - wheeler and MSME collections continued to be well north of 95% during October 2021. Keeping in mind our long-term growth plan to enhance the customer reach we have planned expansion in our branch network from 250 branches as on September 2021 to 291 branches by March 2022. The company has already initiated recruitment process for the branch expansion going by our asset light business model the capex for the same will be minimal. We believe that we are on a strong footing looking at the buoyancy in the economy coupled with our strong balance sheet, adequate liquidity, capital, improved credit ratings along with stronger relationship with our lenders places us in the forefront to drive growth, the stand guided by our longstanding commitment of reaching the most underserved sections of the society in making a difference in the lives of those who needed the most. Our focus will be on scaling up disbursement in a calibrated manner to maximize revenue growth going ahead while keeping a closer watch on building profitability and maintaining the quality of our loan books. Arman over the period has faced many challenges from external environment in form of regulatory challenges, demonetization and COVID and every time we have managed to emerge stronger. We thus feel that with the worst is behind us and we are well poised to achieve a growth and harvest the benefits of fairer weather. We are optimistic about our future growth and earning potential and believe that we are well positioned and have a stronger foundation for the future which can provide us sustainable and profitable growth for the long term, Finally to conclude, I would like to express my sincere gratitude to all our stakeholders for their continued support during this very difficult times and a special note of appreciation for the company's field staff who continued to show perseverance during the difficult times. I now would request the operator to open the floor for the question and answer session. Thank you very much all. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Deepak Mehta an Individual Investor. Please go ahead.

Deepak Mehta: Good evening Sir. Thank you for the opportunity and good set of numbers. Sir, my question is around the SME segment, so how is the traction in the recent quarter and how do you see growth in the coming years and coming quarters?

Jayendra Patel: The disbursement has of course picked up in the last quarter compared to the previous three or four quarters, so we have a run rate of about 15 Crores of disbursement in a month, of course our target remains much, much larger; however, the underwriting has been kind of tightened since COVID and we have not relaxed it, probably in the fourth quarter if we

relax it, it will go up another 20% to 25%, but generally speaking a lot of the growth for the coming quarters here I should say will be through branch openings, so I think as I said we are opening some 40 odd branches in the microfinance segment in December, January, and February timeframe, in about February and March also we should be opening a lot of the MSME branches as well, so that disbursement hopefully should at least increase by 30% to 40% by Q1 of next year.

Deepak Mehta: My second question is around, so lot of new companies especially Fintech are coming in the SME segment, so if you see recently Paytm has also tied up with HDFC Bank and in the long-term in the concall of Paytm they announced that they are willing to get into the lending business through the route of HDFC bank, so how do you see this space or do you have any plan to tie up with fintech or to launch any fintech kind of business?

Jayendra Patel: We are not, I think it is a different product altogether although I always say this that MSMEs are very, very broad term, it includes loans of one lakh rupee and includes of loans of Rs.10 Crores also sometimes, it includes urban loans and rural loans, we are servicing the completely different market segment, the customers we service are not the target segment of the fintech, the fintechs are more targeting the urban kind of higher educated more formalized segment, so we do not really look at that emergence of the fintech as much of a threat on our model, but you know as far as tie ups or anything I do not see how exactly that will be synergies, but if something does come up I am always open to any kind of a tie up.

Deepak Mehta: Thank you so much, I will get back in the queue Sir.

Moderator: Thank you. The next question is from the line of Amit Mantri from 2Point2 Capital Advisors. Please go ahead.

Amit Mantri: Sir, just on credit costs, so what have been the percentage credit costs that Arman has incurred in the MFI and MSME business due to COVID so far?

Jayendra Patel: You mean on a static pool, you mean on the current pool?

Amit Mantri: Pre-COVID book, so March 2020 book basically.

Jayendra Patel: The write off that we would have done for the pre-COVID book already which has been taken off a written off will turn out to be about 3.5% and then we have another 6.5% of pre-COVID, but that is on the current loan book.

Amit Mantri: This includes both?

- Jayendra Patel:** The current as well as the pre-COVID book which is part of the NPA, to more get through the numbers again it is about 3.5% has already been written off, the provisions that lie in terms of Rs.62 Crores has approximately Rs.40 Crores of NPA provision, now NPAs typically almost 90% of the NPAs that we have on the books are the pre-COVID book NPAs, which have become regular in terms of paying the installments over a period of time, got a setback in November 2020 and then again maybe the second wave again, so these people have shown the resilience, but the consistency of the repayment have got hampered due to various circumstances and they continue to be on the books and they kind of adequately provided at this point of time if we can put it.
- Amit Mantri:** We have done some restructuring so how big is the restructured book and what are the provisions against that?
- Jayendra Patel:** Restructured book compared to today's portfolio will be very small; it will be about less than 4% of the book. Not even 4% the restructuring predominantly was for the microfinance book wherein the restructuring was about Rs.26 Crores that is December 2020, I would not have the exact number, but a large component of that has already been repaid or you know part of the NPA books had adequately provided for.
- Amit Mantri:** This would be December and there was no further restructuring, so anybody who did not start repayment will already been NPA right, so with regards to second wave you have not done any significant restructuring is it?
- Vivek Modi:** No, there was no restructuring, there was for the ones that we could not reach out to in the microfinance segment and those who were standard assets, so SMA-1 so those were like completely clean accounts as on March 31, 2021, we did provide moratorium ranging from one to two years exactly and that also limited only to the microfinance book, as far as the MSME and two-wheeler is concerned there were no moratoriums or restructuring given to them in the second wave or first wave.
- Amit Mantri:** In the MSME book the collections have been fairly good consistently greater than 90%, but yet that is the niche segment of the book where the GNPA has been rising so can you explain that?
- Jayendra Patel:** Couple of reasons one is what I think Vivek already said is there was no restructuring, there was no moratorium or anything given on that book partly because there was sufficient kind of profits and staff available to just kind of take all of that upfront. The second reasoning also is that if you look at the microfinance segment there was a bit of a denominator impact where the portfolio has gone up significantly, in the MSME there has been a little bit slower to move ups on a percentage terms it appears to be a little higher, we are still around pre-COVID level when it comes to the overall portfolio.

Vivek Modi: The AUM of MSME vis-à-vis the March 2020 is still at about 10% lower than March 2020, so the denominator that way is lower.

Amit Mantri: It started growing again and already debt equity is 4 times so within the next few quarters it might tops maybe five times debt to equity, so what is the plan now on raising or supporting this growth?

Jayendra Patel: Obviously I think as I keep saying it is not a big secret we are open to some equity kind of valuation given the right opportunity. Right now we are as you said at about 4.05x debt to equity ratio basically if you work yourself forward we are good till about Rs.1200 Crores worth of AUM, if you offload some of that as a D/A transaction in that case and which at this point substantial interest to do that maybe you can delay that a little longer, but so on September we had an AUM of about Rs.908 Crores, so we have a few quarters before we absolutely need equity, so it is not in a rush, but yes in the next 3 to 4 quarters probably some transaction or another will come along especially once the sentiments improve around microfinance and that new white paper that comes out I think that will add a lot of valuation kind of support towards an equity base.

Amit Mantri: Now the credit cost provisioning has started coming down on quarter-on-quarter basis so is it further provisioning required on the pre-COVID book that was a challenge?

Jayendra Patel: There will be some, but as you said it will continue to trend down I think the worst is behind us, overall the trend you will see in the coming quarter I do not want to give out any indicators, but let us take it will continue to go down in the coming quarters. As long as we can maintain the new book that we have created at 99% repayment that would hopefully we should be able to, I do not foresee too much, it is not going to be zero let me put it that way, but it will continue to trend downwards.

Amit Mantri: Sure, thanks a lot and good luck.

Moderator: Thank you. The next question is from the line of Mihir Desai from Desai Investment. Please go ahead.

Mihir Desai: Thank you for the opportunity. My question would be on branch banking, as you have mentioned that you are planning to add some 40 odd branches by March 2022, but can you throw some light on the roadmap like can we see some few branches coming in Q3 or can you please throw some light on this?

Jayendra Patel: It is a little premature, but overall approximately around 20% we are planning to open in December and then about another 30%, 30% and 20% more in January, February and March, so by March we are hoping that, although names will be completed, but that being

said in next week we are having like sort of a management retreat over 3 days to kind of decide which areas and what areas we want to expand on, so it is a bit premature to give you a definite on where, how many will exactly open there, what parts of India will be tend to open, 40 is basically an indicated number, but if we do not find that much potential it might be less than that, if we find more it might be a few more, so let us see.

Mihir Desai: Sure, a followup on this, as the banking industry as a whole is looking at a digital growth where many NBFCs and banks are planning to cut down some of the branches which are not performing and add more towards digitalization so how will it make sense over expanding couple of new branches, so I just wanted to know the strategy of yours on this part?

Jayendra Patel: Our branches are very light specifically I mean the operating cost largely speaking is employees right the branch rent and capex that goes into a branch is not very, very high in fact we shut down branches, we combine branches it is tough all the time. You are right, the new buzzword is digital, fintech, AI, machine learning all of that stuff whenever of course we are very much technologically driven, we continue to expand on technology, right now we have a project running for MSME and two wheeler to convert it completely into a digital driven paper less all the other fancy terms you want to add behind that we are going towards that, microfinance we had about a year-and-a-half project to convert it into mobile base, cloud base kind of driven, but largely speaking we are an MFI, we are a microfinance company, we are servicing customers who are not able to go digital, they were sophisticated enough to take a loan from their mobile phone and pay their EMIs through cashless mode than all that other stuff, frankly speaking out we are out of a business right, my job is to serve the segment who cannot do that and believe it or not that is the majority of India, so urban India is different than rural India completely and you are sitting in Mumbai or in Ahmedabad or all the metro cities it is a different world altogether, so I do not see that as much of a threat as I said earlier, but digital is obviously there, but frankly speaking the fintech term has become quite a bit buzz, I have studied a lot of fintechs at most the companies coming up are fintechish, a true fintech I have not seen yet at least not a successful model yet, but anyway I will hold my further comments on that.

Mihir Desai: Sure, Sir. Thanks for well detailed answer. Now coming towards provision, currently just looking at our provision, are the current provisions sufficient for write off in near future or are you planning to increase the provision going forward?

Jayendra Patel: As I answered Amit also I think the tendency was for the provisions to be quite high for the last 6 odd quarters, this quarter they have come down I cannot exactly tell you what the future will look like except to say I strongly expected to trend downwards, but obviously I

would be completely I said that we have done and dusted and obviously it is not going to be zero, but it will be lower and we will continue get lower as time goes on.

Mihir Desai: Understood Sir. Lastly on the industry front, as I had heard recently that we were eyeing that the retail loans can go bad in this cycle of NPA, so just wanted ground check from new like you are being into business how do you see this kind of portfolios or are they doing good repayments and all good as of now right?

Jayendra Patel: Well probably a lot of people on this call will have a better answer than I do, largely speaking the loans that I have made post-COVID that is when I started disbursements again in August or September of 2020 about a year ago those are behaving extremely well surprisingly even better than I expected, but we were very sticky, so we tightened underwriting as I said only people who are absolutely clean we gave out loans to them, so we sacrifice disbursement in exchange of trying to build a better quality, so far it has seemed to work, I do not know if it was overkill or not or anything it is early to comment. We are not facing any large issue like that, I would say the worst is behind, the first lockdown was bad, the second lockdown was in some ways shorter, but in other ways worse than the first lockdown because of the heavy human casualties, and their sicknesses and all that stuff, but I am ready to be done and move forward and everybody in this room is kind of ready to move forward, so let us hope for at least that the worst is behind us.

Mihir Desai: Sure, Sir. Thank you for answering my questions. If I have further questions I will join the queue.

Moderator: Thank you. The next question is from the line of V. Srinath from Bellwether Capital. Please go ahead.

V. Srinath: Just want an update on, I want to understand our growth momentum or what are we looking at in the MSME space and also I want to understand if MSME is also on incremental loans post first wave of 99% collections?

Jayendra Patel: The second answer is easier to answer which is yes, that is also behaving about the same, I think that is at 98.8%, so about almost 99% in the MSME side. As far as the growth is concerned I think my answer is pretty similar to what I gave with the first question I got, I am committed to grow it out, we have tightened the underwriting norms it is seen that the disbursement pickup has been lot slower than it has been in the micro and it has always been the case because it takes the right kind of customer to disburse in the MSME side, but we are planning to open some branches, we are probably go into not step back completely from the tighter underwriting, but maybe doing it halfway and I expect the disbursements to pick up by at least 30% to 40% in the coming couple of quarters. Few branches in Rajasthan we have already opened a kind of a test those are doing well. Overall collection causes a

huge amount of distraction also on the field, so MSME as you know is also a door-to-door collection, I do not have any better answer to give you about the growth side except to say that yes.

V. Srinath: On the growth just want to understand because your have tightened the norms rejection rates have gone up, our lead pipeline itself is not filling up because they are not maybe business opportunities on the other side because we see the disbursement trajectory in MFI has been significantly better?

Jayendra Patel: It is a combination of couple of factors, one is the rejection rate is quite high so almost 70% plus is the rejection rate, the pipeline also is kind of slower to come in and that has to do with your branch efficiency, when they are spending a lot of time on the collection aspects obviously the time which they can spend on generating leads become lower, so it is a combination of a lot of different things, but again in the fourth quarter but we managed improving the disbursements of microfinance by quite a bit in this quarter, I think next quarter we will concentrate on the MSME side that will work out whatever things there are there on the disbursement aspect.

V. Srinath: Perfect on two-wheeler the Rs.42 Crores book now what would be the size of the rural two wheeler here and I am guessing the Rs.11 Crores disbursements are largely in the rural two wheeler space?

Vivek Modi: The rural two-wheeler is almost 25% about Rs.10 Crores there and in terms of the disbursements I think that will be again in the same ratio of 75% : 25%.

V. Srinath: Got it and how do we see this business kind of going forward in the sense of like are we looking to build the rural two-wheeler book over a period of time to like Rs.50 Crores to Rs. 60 Crores, is there an opportunity or depth of opportunity there or are we look into kind of slowly get this division gone down over a period of time?

Vivek Modi: That definitely is a desire to do that as you said right before COVID we kind of started it as a pilot if you recall to grew that book, but due to whatever COVID disruptions were there it created so many distractions for other stuff that these kind of pilot projects were left in the sideline as we continue our growth and as we continue getting out of this COVID related disruption I think there is room for other products also, so hopefully we will be picking up the rural two-wheeler through our MSME branches and also may be higher ticket loans on that side as well, so my guess is that at least over the long run you will see a lot of product innovation on that division.

V. Srinath: Perfect, if this branch expansion we are having any kind of broad geographical feel you can give is in which other states are looking to expand and what is working for you?

- Aalok Patel:** A lot of areas in UP we are considering Bihar as maybe another geography, certain areas of Bihar is another geography to expand, not going to expand in Maharashtra or largely speaking in MP, maybe a few branches more in Haryana and Rajasthan, but again we have a huge list of areas to consider and I am not an expert I think my field people are better experts, but usually as I said we have a management retreat where a large portion we are discussing the areas of expansion and where the opportunities lie, so once we get those we will do surveys, we will get reports from the credit bureaus of how that behavior has been, largely speaking a lot of those reports will not give a true picture because of the high market exactly, so because of the COVID related overdues and stuffs it will be very difficult to kind of set the numbers exactly so you will have to use a combination of numbers and experience to narrow the list down.
- V. Srinath:** Cool, thanks Aalok; I will get back into the question queue, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Balkrushna Vaghasia from Axanoun Investments. Please go ahead.
- Balkrushna Vaghasia:** Good evening Sir. As you mentioned earlier that collection efficiency of post-COVID loan book is 99%, so I wanted to understand this post-COVID loan book is the post first wave or post-second wave?
- Aalok Patel:** Post-first wave starting from August 2020.
- Balkrushna Vaghasia:** My second question is related to consolidated P&L where in other calls there is almost everything is seen except two things, credit cost and the other costs, you have increment of Rs. 3 Crores earlier it was around 2.5, now it is 5.5, so can you throw some light on the attributes of those increment, what does it relates to or something like that?
- Aalok Patel:** I think you are talking about the other expenses?
- Balkrushna Vaghasia:** Quarter-on-quarter.
- Aalok Patel:** So Q2 FY2021 provisions and write offs were 18.6 and this quarter it is 8.7, so there is a 54% reduction correct.
- Vivek Modi:** I think what he is asking was for the other expenses is Rs.5.5 Crores from Rs.31 Crores, so primarily if I can address that when you are looking at H1 2020 there has been literally more disbursements during that 6 months period, so your credit bureau cost, the disbursement cost, the travel and conveyance kind of expenses were very low as compared to that FY2022 Q2 has been largely business as usual kind of a quarter and hence these costs have come into play again, so it is directly related to the disbursement cost.

Balkrushna Vaghasia: Alright, thank you so much.

Moderator: Thank you. The next question is from the line of Debashish Neogi from Digitian Investment. Please go ahead.

Debashish Neogi: Hi, Aalok. Your answer to the previous question of Amit just want to get provision is 6.8% and already write off of COVID loans I think 3.5%, so 3.5% is written off and 6.8% is provision?

Aalok Patel: 6.8% is the total provision and out of those NPAs we are under ECL, so under ECL the NPA provisioning will about 40 Crores approximately the NPA provision out of the Rs.62 Crores in absolute numbers.

Debashish Neogi: The second question, I am asking this question as a industry player given that you are grounded, you work in the market and know what is happening, this 90% collection efficiency optically appears low, but when you compare other players maybe against other players most of the players we are better off, but there are some who are reporting much better than 92% collection efficiency for example Credit Access Grameen is reporting 94%, 98% the way the presentation shows so equity looks higher so the disparity is too large so what do you think the reason for this?

Aalok Patel: You are absolutely right and that is a bit of an anomaly, I do not have an exact answer couple of things I can add and then maybe Vivek can give his opinion as well. A. It depends on how fast you are growing so you can have a denominator effect there. B. If your strategy is doing top box or net of loan that might have some bit of an impact. C. You could be doing restructuring. D. There is no standardized way to calculate collection efficiency rates and in fact I do not particularly care for it as well, this is the first time people have started using it post-COVID, I think even in demonetization there was not a big concentration on collection efficiencies because lot depends on the tenure of your loans and how quickly maybe they might be, contractually the loan might be over, but there still might be an overdue and stuff, so I do not know, I am not sure I think maybe a better comparison would be looking at PAR numbers or NPA numbers and stuff like that because it could be also that people once you provide for an asset then maybe they do not include it in collection efficiency as well, Vivek anything?

Vivek Modi: Largely Aalok I think you covered majority of the variables that could be taken into account for calculating a collection efficiency for any organization, additionally we have also seen that within the NBFC space there have been various different methodologies for providing moratorium or restructure so there are organizations which have moved on to only interest recovery. So as long as the interest recovery has happened the kind of collection taken it as a 100% collection efficiency so we have given moratorium March 2022, and it is actually

quite a normal also I mean I am not going to name any competitors, but there are competitors who are reporting worst collection rates doing better than me, there are ones that are reporting better NPAs, better collection efficiencies, but reporting huge losses so you guys will know those much better than me, I think collection efficiency can be whatever you wanted to be if you are really motivated, there is no set formula, there is no RBI formula or anything like that.

Debashish Neogi: What I am saying is Aalok if we have to break the collection efficiency between states is it still Maharashtra because?

Aalok Patel: Yes, Maharashtra will be the worst, correct, Maharashtra will be the worst followed by Madhya Pradesh, followed by Gujarat to certain extent, Rajasthan has always been consistent, but Rajasthan got impacted in the second wave, but they are back to their pre-second wave kind of collection efficiency, so ranking from worst to best would be Maharashtra, then MP, then western UP and eastern UP, then Haryana would be the best with 100% collections, but we just went into that.

Debashish Neogi: How much is with Maharashtra now, is the trend improved, how is it now?

Aalok Patel: Maharashtra is actually the one pulling us all the way down so it is about 84%, otherwise every year the state is much more than 90%.

Debashish Neogi: You see Maharashtra moving up?

Aalok Patel: It is moving up by about couple of percentage points every month, but we are not disbursing a lot there, so there is not a lot of new portfolio to kind of offset the bank portfolio.

Vivek Modi: Debashish, when we address Maharashtra side what happens is when we went into COVID Maharashtra was about 22% of the portfolio, today it stands at 15% and in terms of disbursement accounts for about 10% only, so largely the Maharashtra impact will keep on diminishing and hopefully if the collection efficiency can keep on improving over a period of time that will add up to the overall.

Aalok Patel: Maharashtra has been a bit of a thorn for some time, if we could reverse time and I do not remember who decided to go into Maharashtra most likely it was myself, but I deserve a big kick in the back for that work.

Debashish Neogi: It happened, ups and downs. Thank you, Aalok, thank you, Vivek and all the best.

Moderator: Thank you. The next question is from the line of Sumit Goenka from M3 Investments. Please go ahead. As there is no response from the current participant, we will move onto the next question from the line of line of Ninad Sabnis from Sabnis Financial. Please go ahead.

Ninad Sabnis: Good evening, sorry for the delay. Thanks for taking my question. I have a question around disbursement, I have seen over the last few quarters the trend is actually improving so what is the current plan to span the branch network and how does the disbursement level increase with the increasing number of branches and for FY2022 what will be the floating branch count?

Aalok Patel: FY2022 closing branches will be I think 291, as far as the branch expansion I think I will give the same answer as I gave earlier that we are not sure exactly, we have kind of a figure in mind of about 40 branches in microfinance, in MSME it might be more, but we have not decided that, so we will take it up after this planning is complete and as far as disbursement goes we will not add a lot, see opening branches there is a lead time of about 3 to 6 months so once you open a branch it takes like about 3 months for it to start adding to your disbursement, otherwise in the initial for a month or 2 it might be only some 10 lakhs rupees or 15 lakhs rupees, so this is not planning to towards FY2023 than anything else, but this year also disbursements are improving month-on-month, I think last month we did about Rs.100 Crores odd taken altogether on a consolidated basis and every month we are increasing it by about 5% odd so I think we are very close to Rs.1000 Crores if not this month, next month from an AUM side so that would be kind of a big milestone for us.

Ninad Sabnis: Great, just a followup a very broad macro type of a question, we see that situation across most industry is already up and even on the retail side it has gone to green maybe over the next few quarters, so in the customer segment which we are in, so do we see or foresee that we may have more disbursal rate, faster disbursal growth because of inflation like affecting a lot of people?

Aalok Patel: Assuming as far as the ticket prices go?

Ninad Sabnis: Yes.

Aalok Patel: I do not expect ticket prices to increase for us for at least another 9 to 12 months so we have already increased the ticket sizes enough, we will take it up again in maybe the second or third quarter of next year.

Ninad Sabnis: Great, that is all from my side. It is all my pleasure to referring to all the answers on this call, please keep up the great work, thank you so much.

Moderator: Thank you. The next question is from the line of V. Srinath from Bellwether Capital. Please go ahead.

V. Srinath: Just two questions, one is could you give the state wise breakup of AUM the percentages so that we can understand how that is moving and the second question would be out of the 908 Crores of assets that we have how much of that is originated post-COVID and pre-COVID so that will be able to segregate the good and the bad book?

Vivek Modi: Geographically probably I will give you a segment wise answer, so for microfinance between Gujarat is 27%, MP would be about 24%, UP and Uttarakhand kind of add up to another 21% to 22%, Rajasthan has now grown to almost 10%, Maharashtra has fallen to 15%, so that kind of adds up to the entire state and Haryana just started so it is about 3% now. In terms of the two wheeler completely the Gujarat book, it is completely Gujarat centric. As far as the MSME book is concerned about 80% is in Gujarat and about 15% in MP and the balance kind of spread between Maharashtra core branches and couple of branches that we just started.

V. Srinath: Got it and the good and bad book, the pre and post?

Aalok Patel: About 60% in microfinance is in the post-COVID book, I do not know the other ones on top of my head but I know about 60%, but that will not match up with the collection efficiency because the demand of the new and old will be different than the portfolios, right because the EMR will be the same, but the portfolio of the newer originated loan will be higher than the older originated loan.

V. Srinath: Got it, that is the run off, so 60% of the assets at least in MFI would be coming from post-COVID disbursement?

Aalok Patel: Correct.

V. Srinath: Got it, perfect. Thanks a lot.

Moderator: Thank you. The next question is from the line of Manish from Hansraj Capital. Please go ahead.

Manish: Good evening Sir. Thanks for taking my questions and congrats for a good set of numbers. I would like to know that are we having some digital strategies to reach out to new customers or any developments which we are doing in digital field?

Aalok Patel: In microfinance we just finished the conversion it has been like about a year that has worked out quite well, obviously there is something going on month-to-month, many

projects. Some projects going on right now converting our legacy software into a newer one, I think you can look forward to it probably next quarter will probably put it in the presentation or what we are trying to do, but again LMS, LOS system, paperless and SGO tagging and we are trying the efficiency and the data decision process, I think in the SME a lot of future decisions will be based on things like what occupations and what areas and stuff that there in, so it is important to start collecting all of that data to know the future start making, it rely more on the numbers rather than your field intelligence or field people's experience goes, so that we are doing right now. As far as reaching out to the customers via digital mode we do not have anything in the works right now if there is some opportunity there in the future we will be happy to take it up, but as I keep saying we are serving basically the rural households you know we are basically serving people who are not dependent on digital or might be even illiterate in many cases so it is not our target segment.

- Manish:** That is great to know, that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Mehta an Individual Investor. Please go ahead.
- Deepak Mehta:** Thanks for the opportunity, Sir. My question is around the disbursement and around the underwriting, so post-pandemic have we made any changes in the underwriting and are we prudent on this site that maybe X, Y, Z the person has taken loan from another NBFC bank and he is trying to take more loan from our company to repay that loan hope you are getting my point, Sir?
- Aalok Patel:** So, you are talking about evergreening?
- Deepak Mehta:** Evergreening in the sense the loan taker want to do it so not the company.
- Jayendra Patel:** He is asking in order for to repay one loan he is borrowing from another MFI.
- Vivek Modi:** Largely what happens, Mr. Mehta is that the high mark would anyway give you the lending details from other borrowers so if we are tending to be the third or fourth lender we are anyway in those cases go reject, so that likely as Mr. Aalok had said yes, that would be happening in the marketplace, you cannot deny that, but the system is kind of enabled over the years and the team is enable to kind of weed such customers out to the maximum extent possible through the process itself, see there are no working capital available to these customers to begin with, so basically rolling over term loans would be the only way that they would get working capital as well so it does, I am sure it does tend to happen, but I do not think it is a larger enough problem where affecting our repayment rates or things like that, of course you will have those few bad apples, but mostly in the industry also it is very unlikely somebody is going to take a loan from me and repay another person, once the

cash goes in their account or in their pocket that gets mixed with everything else so are they using some of that cash to repay their other borrowers, yes, of course, but we do that well, but then again we must draw the attention to the fact that there is a limit that set by the Reserve Bank of India and within that limit he can definitely borrow and from that borrowing he can take care of the another MFI as long as he does not exceeds his limit which is set by the Reserve Bank.

Deepak Mehta: Correct, which is I mean Rs.1.25 lakhs as of now per borrower?

Aalok Patel: From all the lender from all the MFIs so that is why our maximum loan ticket size in microfinance is just Rs.50,000 that too it is very rare due to kind of cycle plus customers. Well to add more complication to this answer is that this Rs. 1.25 lakh might go away soon with the new RBI circular to harmonize the microfinance practitioners what they are talking about is shifting from an overall debt cap to an FOIR, so anywhere, not going into too many details, but stay tuned for that change as well.

Deepak Mehta: Got it, Sir. Thanks for the clarification and my last question is around do you see in the near coming quarters the cost of capital is going down for our company?

Aalok Patel: Cost of borrowing?

Deepak Mehta: Yes, cost of borrowing?

Aalok Patel: Yes, it has gone down significantly, but I think Vivek will add more, but I do not think it will probably continue to go down with all the cheap funding available that RBI is pumping due to COVID, I think it is probably as cheap as it gets right now if anything it will remain stable or maybe go up a little higher in short to medium term.

Vivek Modi: I think that is about it, the cost of funding will definitely come down in the last 18 months, but I think to large extent it will bottom out because the benefits or believe that government was to offer has already come into play in the last 18 months and you do not see that going down any further from here.

Aalok Patel: The thing is also that whatever benefit we get from cost of borrowing by RBI law we have to pass it on to our customers anyway so of course that is always an endeavor to reduce the cost of borrowing or increase, but to a reasonable extent we can pass it on or force to pass on any increases or decreases that we manage through cost of borrowing.

Deepak Mehta: So, I think right now the margin should be not more than 10%, right?

Aalok Patel: That is for microfinance or 2.75x the average base rate of the top five BSU banks.

Deepak Mehta: So we can assume that our company has reached the optimum level of the cost of borrowing, so it should not be going below this rate, right?

Vivek Modi: I do not want to say that, our endeavor will always be to reduce it and I think as we keep growing and the ratings keep increasing and all the other stuff I think I do not want to say this is the lowest it will get, but given where we are today I think we have done a great job of reducing it as much as possible.

Aalok Patel: As Vivek has pointed out, the rating upgrade has just happened, so rating if added it will surely help us in some or the other way as we move forward in the next couple of quarters because that is what the rating is suppose to do and that is what the differentiator largely between the A and B category companies, so that should definitely help us.

Deepak Mehta: This is why I asked this question because of re-rating so credit rating, so thank you for honest answer and straightforward answer and best of luck for the coming quarters. Thank you so much.

Moderator: Yes, Sir. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Aalok Patel: As always we have no closing comment, hopefully everybody had an enjoyable Diwali and a good break with family and I guess it is back to work for all of us, take care and have a great evening.

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