“Arman Financial Services Limited Q4 FY19 Earnings Conference Call”

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

Moderator: Good day, ladies and gentlemen and welcome to the Q4 FY19 Earnings Conference Call of Arman Financial Services Limited hosted by Antique Stock Broking. We have with us today the management from Arman Financial represented by Mr. Aalok Patel – Executive Director and Mr. Vivek Modi – Chief Financial Officer. 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 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. Digant Haria from Antique Stock Broking. Thank you and over to you sir.

Digant Haria: Good evening to everyone. Thanks Aalok for taking out this time and thank you to all the participants who have connected, so in this last 7 to 8 months where there was complete madness in this sector, it is good to see that some NBFCs have been able to hold their ground and really differentiate themselves and Arman has tried to be in that camp, so Aalok, over to you and maybe you can tell all our investors how last 6 months were in and what all things we did and what is the outlook for us. So over to you, Aalok.

Aalok Patel: Thanks a lot Digant. It has been sort of an uphill battle for the last couple of quarters, but really not as bad as we expected. Thanks everyone for joining and good evening to all of you. I am joined on the call by Amit bhai and Vivek. Jayendra bhai is unfortunately travelling at the moment, so he is unable to join us.

Firstly, we have issued a press release for the past quarter and hopefully everyone has had a chance to review it, if not it is available on the company's website and on the stock exchanges as well. So, as you have seen from the results, we have had a fantastic year**.** The consolidated assets under management for the company have grown by over 50% from Rs.453 crores to Rs.685 crores. It is also 6% above our beginning of year target of Rs. 650 crores despite the liquidity issues faced by the industry during the last 2 quarters.

Comparing Q4 over Q3, the AUM grew from Rs.586 crores to Rs.687 crores which is a 17% growth. Our loan book has grown around at 50% CAGR for the last 5 years, so that is including the demonetization impacted years. We are confident of being able to maintain this average growth in the foreseeable future. Our disbursements have grown from Rs.545 crores to Rs.790 crores registering year over year growth of 45%. I am happy and proud to announce that we have achieved a record profit after tax this year of Rs. 21.3 crores, which is higher by 192% compared to the previous year. Q4 profit compared to the same quarter of the previous year increased 127% to Rs. 5.4 crores. Also, our total employee strength grew from 1,100 to 1,600 during FY19.

Comparing the different segments, Microfinance which is our biggest division grew by over 50% to Rs.484 crores. We have opened 31 new branches and are currently located in 6 states, servicing approximately 2.75 lakh customers. Income from operations in this division was around Rs. 95 crores recording a growth of 80% compared to Rs.53 crores in FY18. Overall, the Microfinance division accounts for approximately 70% of our AUM and 70% of our profits.

The MSME segment which essentially includes individual microenterprise loans to the rural segment was started as a pilot in 2017 and expanded in 2018. We have performed admirably in this segment and are quite keen to further expand this division in the coming years. AUM from this division grew from 46 crores to almost 100 crores over the previous year which is 117% growth. We are currently operating in two states in the MSME division with an active client base of over 25,000 customers. Income from operations in this division is about 24 crores up from 6.9 crores of the previous year which is a 240% increase.

Overall, the MSME division currently accounts for about 15% of our AUM and approximately 19% of our profits. Our oldest division which is the two-wheeler division faced significant headwinds in the previous year as many of you may know sales in the two-wheeler industry were significantly impacted due to the new third party insurance law and the general slowdown in the sales in the industry. Despite these headwinds, the AUM grew from 90 crores in the previous year to 102 crores in the current year which represents a 13% growth year over year. Income from operations stood at 23.3 crores up from 20.4 crores which is a 14% increase. We have commenced a pilot to start rural two-wheeler financing based on the hybrid of our Microfinance and MSME business models. So far, the results have been encouraging and we hope this pilot will prove to be a new avenue for growth. We are currently operating in Gujarat with an active client base of 36,000 in the two-wheeler division. Overall, the two-wheeler division accounts for approximately 15% of our AUM and 11% of our profits.

Now, speaking of the ongoing liquidity crisis in the NBFC sector, I am happy to report that barring the marginal increase in our cost of borrowing, we have been mostly unaffected. We have been able to raise adequate funds to finance our ongoing operations without any hiccups and continue to maintain our profitability. Post the liquidity crisis in Q3, we had put a hold on our branch expansion strategy and as per the advice of the board and our trusted advisors, started maintaining sufficient cash reserves for at least 2 months of ongoing operations. As we mentioned in the press release maintaining a higher cash balance is sort of a double-edged sword. While you get comfort around the uninterrupted operations in the event of any short-term liquidity crisis, it also bears a negative carrying cost that will impact the bottomline. Given the market conditions, we believe this was a prudent call and we will continue to revaluate this strategy and slowly reduce it as the market conditions improve.

To provide further comfort, our business model carries a naturally positive ALM. Our average loan turnover for Microfinance is 18 months and for MSME and two-wheeler, it is 22 months. Our average debt tenor is about 36 months, therefore even in a worse case liquidity scenario, we have no issue in servicing our debt. In Q3 and Q4, we have managed raising around Rs 295 crores of funds, which includes Rs. 70 crores through securitization route, Rs. 50 crores through PSU and private banks and Rs. 35 crores through NABARD refinancing. The balance was from other financial institutions. Quite recently, in fact, we have just closed the third foreign NCD transaction and we are in active discussion with other foreign funders for various ECB or NCD transactions. Our efforts are going towards diversifying our debt pool and reducing our overall cost of borrowing. The total debt outstanding was approximately Rs. 540 crores at year end, of which 30% is from banks, 11% from foreign NCDs, 3% was in the form of Tier 2 debt and the balance 50% was from other financial institutions. This ratio has skewed away from banks in the last two quarters as they became more conservative towards NBFC rending.

The total equity base on a fully diluted basis was almost 130 crores. This brings our debt equity ratio to about 4.15. As such, we are sufficiently capitalized for our immediate growth plans. Our new ERP system for Microfinance has gone live in April and the field operations are slowly but steadily adapting to the new changes. We expect significant efficiencies and risk advantages to be gained within the next 6 months. NPA numbers have remained steady in the last few quarters with Namra Finance reporting about 0.55% for Microfinance and Arman reporting 3.7% for two-wheeler and 0.03% for MSME.

As always ladies and gentlemen, I am thankful to the whole Arman team, which has worked extremely hard this past year and made such a difference to the lives of our customers. Believe me, when I tell you that such results would not have been possible without a highly motivated and a balanced team working tirelessly towards a common goal. So far, fiscal year 19-20 looks to be pretty bright and we hope for another great year going forward. Thanks to all of you once again for your support and trust. I request the operator to please open the call for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V: Just wanted some highlights on the MSME business, could you please share the NIMs and the NPA for the business and share some kind of future outlook. What kind of branch growth are we looking at? Have our existing branches completely sweated out or are we looking to grow in the existing branches as well. Also, it would be helpful if you could provide some kind of future outlook on the MSME business and NIMs and NPA numbers?

Aalok Patel: So, the MSME division has performed well over the last year as we have more than doubled the portfolio. We are targeting to increase that portfolio to about 180 to 200 crores in the coming year while balancing our conservative methodology of not growing too fast versus capturing market share. As far as the asset quality is concerned, it has been performing extremely well. NPA levels are somewhere around Rs 7 lakh, so on a percentage basis, it will be in single digit basis points and the portfolio has crossed 100 crores as we speak. Some of the branches are approaching almost Rs 8 to 10 crores portfolio**.** At Rs 10 crores level, I would like to split the branches, but those are about 4 to 5 branches. The other branches sort of have ways to go. For 100 crores portfolio, we currently have 24 active branches and we are planning to open another 10 to 12 branches in the coming year, mostly in the Madhya Pradesh area, a few in Gujarat and we are considering may be in Maharashtra as well, but I haven't made that decision yet but definitely we will continue to see robust growth for the MSME division. Now, as far as the profitability goes, we are fortunately at almost 5% ROA in this book, so it is probably our most profitable book at this point. But that being said, I am hoping I am wrong, but I am guessing that as the portfolio matures, the NPA levels will probably increase to a certain extent, so hopefully we can balance it out to 3.5 to 4% ROA book.

Srinath V: And this kind of 100% growth in this book will be driven by the same sub 1 lakh ticket size or are you factoring in kind of slightly more larger loans?

Aalok Patel: We have been trying to target the larger loans. Originally, I had anticipated that the average loan size will be around the Rs. 1 lakh range, turns out it is closer to about Rs. 70,000 at this point and I don't really want to push the higher ticket loans if the absorption capacity is not there in the rural side. So, we are pretty conservative as far as our loan sizes go, we do a pretty thorough cash flow analysis and then we arrive at a loan amount for any individual customer. So, it is not the same as some of the other competitors are doing that is relying on their Microfinance customers and if they have crossed a certain cycle, third cycle, fourth cycle, automatically they bound them up to a Rs. 1 lakh loan or something like that. So, I don't really believe in doing that. I feel anything over Rs 50,000 requires a much better underwriting or a much superior underwriting, then what you would do for Microfinance and I think I have said this before that just because somebody has paid you Rs 30K to 40K loan for 3 years in a row or 3 cycles in a row that does not mean necessarily that they will be able to pay you Rs. 1 lakh on time in the fourth year. So, I think hopefully that answers your question.

Srinath V: Just slipping one last questioning in, could you please help us understand this rural two-wheeler product and how is it kind of different from your existing product. Which are the geographies where you are currently piloting this product and what are the kind of bikes? Also, how do you plan to scale this up?

Aalok Patel: See, our current two-wheeler model is more on the urban side where our sales people are sitting at the larger dealerships and originating loans at the dealership location itself. And at those dealer locations, we are competing with maybe 6, 7, 8 other financers, it could be banks or it could be a larger financial institution or it could be very well run and well managed regional players, such as Arman. It is difficult to grow in that urban segment because A, the industry itself is not growing very fast and B, the margins are always under lot of pressure because there is a lot of competition to gain market share by some of the larger players as well. So, basically what we did was under our MSME banner only, we started originating high margin kind of rural loans. We currently have about Rs 6 crores portfolio in that as we speak and these are sort of higher margins, at least about 6% higher than what we get from the urban side, but why I said it is blend of our MSME, Microfinance and two wheeler is that we are doing the same model as the doorstep monthly collection. So, while the margins are higher, you know the OPEX is slightly higher as well, but we find the competition to be a lot less there, easier to sort of originate and not a lot of people are following the same system. So, what we have done is now we have started two separate branches in Vadali and Sera in Gujarat and this is where our MSME and Microfinance branches are also located but completely separate from that we have started kind of a blend model, where our sales people are sitting at the sub-dealers or small dealer kind of locations. There are also people who are also trying direct marketing as well and we had started originating loans from that segment and we will be following the cash collection model only. So it is a little too soon for me to give you any concrete number Srinath, but I am hoping that this turns out to be another avenue where we can grow the two-wheeler book.

Moderator: The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, my question was something that you have addressed in previous calls or in your annual reports, but I just wanted to touch upon it again. The pre-monsoon showers have been very bad in Gujarat and there is water scarcity and there is a problem there. So, in your areas, if the monsoon fails, what kind of damage to demand or NPAs are you expecting and how are you preparing for that in case that happens? That is the contingency part. And secondly, on the MFI side, can you mention what kind of growth you are looking for this year? What is your expectation on the ticket sizes? Will they increase or will your geographical reach continue to expand? And the third question is in the last page of your press release you have mentioned the combined NPAs of two-wheeler business and MSME business. Can you split them up sir? There is a fall quarter-on-quarter, I was just wondering, which segment has improved more?

Aalok Patel: As far as possible, I will try to remember all your questions, but please interrupt me if I am not going in the right direction. First of all, as far as rains go, I will tell you couple of things. After doing this for about 9 years. There is always an area which has less rain, too much rain, too much crops, too little crops, there is always some election going on. It won't be a large problem even if that occurs. Usually, every year there is some area or another where we face drought kind of issues. Typically, the NPAs do increase marginally, but it won’t be more than a blip on the overall NPA levels of the segment or the company itself. Secondly, we are not really concentrating too much on direct agri, so we don't lend money to direct agri. Of course, allied agri like cattle and stuff, we do lend a lot of money towards that segment. But people who are solely reliant on farming we do stay away from that customer base for numerous, probably obvious reasons. So, to answer your question, no I don’t expect a significant impact. But with that being said let us hope the rain Gods are kind and there isn’t any problem this year.

As far as the growth in the MFI segment is concerned, we ended the year with a book size of Rs 484 crores. We are targeting to reach about Rs 700 to Rs 750 crores this year from an AUM perspective. Further, we are targeting somewhere around Rs. 950 to Rs 1000 crores AUM on a consolidated basis. However, I don’t want to give very hard targets to you right now because depending on how the liquidity situation plays out and how the NBFC sector is perceived**,** those figures might go up or down. So this is the best guess I can give you right now.

As far as the NPA levels on the standalone book are concerned, if you were to split the two-wheeler from that 2.0%, two wheeler is about 3.8% and the balance is on the MSME side which is almost negligible.

.Agastya Dave: And sir, final question on your MFI book, so my worry is more on the cattle side, do you have data on loans which are going for animal husbandry, do you have that number, sir?

Aalok Patel: Yes, of course, we have it. On average, in Microfinance it is about 20% to 25% of the book. In the MSME book, it is a little bit higher at about 30%.

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

Amit Mantri: My question is on the competitive intensity in the MFI space. Bharat Financial had red flagged that, we are already seeing some kind of over-heating in West Bengal and Orissa. So, just wanted to get your opinion on how overall leverage level is playing out in some of the states that you are operating in and is that matter of concern for you or not?

Aalok Patel: Yes Amit, I think there are certain states as you said West Bengal and Orissa, to a certain extent some states in Eastern India, may be Bihar to a certain extent as well that are overheated. The NPA levels are still relatively stable. I don’t think there is anything to be too concerned about, but I think there are several players that are increasing ticket sizes and going a little bit above or beyond what the industry is used to and to a certain extent that is true all over India.

So, I guess the best way to answer your question is to say, yes and no. Is there a little bit more competition, then we are used to? - Yes. Do I foresee that to be an issue at least in the states that we operate in? - Not in the immediate future, no, I don’t expect it. Overall, I think people are still pretty diligently following the RBI norms and the NPA levels seem to be under control. Post demonetization there have been no heavy spikes in any of the districts that we have been operating in. So, I guess the best way to put it is, we will keep a close track on it, but I don’t foresee any larger issues at least in the next year or so due to competition coming in the areas where we operate.

Amit Mantri: And majority of your growth is driven by new borrower addition or has it been driven by ticket size increase, so if you can give that split of what percentage is

Aalok Patel: Most of the 53% growth in MFI has been, from addition of new customers which is about 33%. Balance is from increase in average ticket size

Vivek Modi: What happens is we started to see the second cycle loans post demon, so here the ticket sizes also moved up and the tenure also moved up. So to answer your question, I think on both the sides, in terms of the old cycle loans, the ticket size has been moving up and as we do the geographic expansion, the new on-boarding of customers also continues to be there

Amit Mantri: And what is the current state wise split of AUM?

Aalok Patel: On an AUM basis, Gujarat is about 31%, MP is 27%, Maharashtra is 21%, UP is 20% and then about 2 to 3% is split between Uttarakhand and Rajasthan. So, Rajasthan we have just expanded into and Uttarakhand we only have about couple of branches, so that is through the UP operations. It is pretty well-diversified considering that two years ago, 72% of the portfolio was in Gujarat.

Moderator: Thank you. The next question is from the line of Vishal Agarwal, Individual Investor. Please go ahead.

Vishal Agarwal: I want to know in 3 to 5 years' time, where do you see the MSME book, you are doubling the book this year, so will it be equal to the MFI segment in terms of the AUM size?

Aalok Patel: It is a little early to make that determination to be honest with you. With India being a dynamic country, it is very hard to project 5 years out to be very honest with you. Of course, we do projections to look at the next 3 years. In my 3-year projection, no I don't have it going out to equalling the Microfinance segment. But that being said, if you look at a longer-term perspective, I feel the next thrust of growth might come from the MSME segment or at least the individual rural loan category, whether you call it MSME or whatever else you call it. So, I expect it to grow much faster than the Microfinance book in the next 3 years, but I don't think it will overtake the Microfinance book at least in the next 3 years

Vishal Agarwal: And second thing, see the two-wheeler business, I think this was discussed sometime earlier in concalls also, it is lower in terms of ROA, it is also giving you higher NPAs as well and the net profit compared to the other segments is lower**,** and you are still going on keeping it. So, from a long-term perspective, again will it be more advisable to concentrate the capital and management bandwidth on the MSME and Microfinance and reduce the two-wheeler business further, what are your views and thoughts on that?

Aalok Patel: So, it is still about 2.5% ROA business. My overall strategy has been to diversify the product line. So as I have said earlier I would like the Microfinance book to be no more than two thirds of my business, we are at about 70% right now. So, for me to shut down a profitable business, even though the margins are of course not as high as Microfinance or MSME, I am just little reluctant more on a risk framework basis. If you look at demonetization and things like that my only division that was functioning was two-wheeler. So, from a risk framework perspective, I would still like to try to grow that business as long as it is operating profitably and giving a reasonable return. Also, you have to understand that as far as the NPAs are concerned it is a more secure business, so the loan losses are not as high as the NPA. The loan loss in the two-wheeler book is about 1.5 to 2%, so we do manage recovering even once it hits NPA. Historically, if you look at it, earlier the NPA recognition for two wheeler was 180 days and now it is 90 days, so there are lot of customers from whom we are able to collect, even though they are not repaying for three instalments.

Vishal Agarwal: And one last question, in the MSME space, are you also doing cashless collections, are these people giving you debit instructions and you are doing cashless collection from these people?

Aalok Patel: Not yet, I have different perspectives than a lot of people. My theory is that, I think I have said this earlier as well, so forgive me for using the same term, but the secret sauce in the MSME and the Microfinance apart from everything else is the doorstep collection. I think that is critical aspect of the asset quality that we are maintaining and as long as the customers are willing to pay for the doorstep, through the revenue or the interest they are paying, indirectly they are paying for the OPEX for me to go and collect at the doorstep. I am not a big fan of insisting on moving towards the cashless collection just yet. But I will just give you a perspective that in my urban two-wheeler division, probability of cheque bounces or instrument bounces are 15 to 20%.

I am just guessing that in the rural areas, it will be 50% plus, so in any way I will have to go and collect money from 50% of the customers on a cash basis to begin with. So, I don't think it will offer much benefit from an OPEX perspective and I will be losing that touch with the customer.

Vishal Agarwal: And just one last question sir, are you doing fortnightly or monthly collection in MSME and the MFI space?

Aalok Patel: So MSME has always been monthly, so that is about 100% monthly. Microfinance is about 80% on a monthly basis and about 20% is fortnightly.

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

Ravi Naredi: The market cap of the company is only 225 crores, but you are still giving a good presentation to your investors and doing concall, we thank you for this. Sir, if government gives Rs. 12,000 every year to every farmer. Just wanted to know what impact will it have on the business?

Aalok Patel: As I mentioned in one of the previous questions as well sir, that our business is not very reliant on direct agri, so we don't typically give money to farmers who derive a majority of their household income from farming. But that being said, as far as I am concerned, it can only be more positive. If the government puts more money in my customer's pocket, clearly they are open to being able to afford maybe higher loan size and their financial condition significantly improves to repay my loans as well, so clearly that will be beneficial for me

Ravi Naredi: Net interest margin is more than 10% while RBI has kept 10% interest margin, so how some differences are there?

Aalok Patel: RBI caps 10% over my cost of borrowing. The NIMs will include the equity portion as well, so that comes, I guess for lack of better term free of cost, so that is the difference you are seeing.

Ravi Naredi: And sir, what is the incremental borrowing cost in last 3 months?

Aalok Patel: In the Microfinance book, the all-inclusive incremental cost of borrowing is about 14.75%

Moderator: Thank you. We will move to the next question which is from the line of Vinay Ambekar, an Individual Investor. Please go ahead.

Vinay Ambekar: If you could just throw some light on the technology aspect that Arman is adopting, you mentioned that you implemented the ERP package, so what kind of benefits does it bring in, then what is the cost that you incurred, have you incurred it through the P&L or have you amortized it through the balance sheet. And another related question is, are you looking at any other technology related initiatives?

Aalok Patel: As far as our new ERP software is concerned, we have completely sort of revamped our entire processes and systems and tried to use the software or technology as much as possible in gaining efficiencies on that side. Couple of things to note here is that on the ground level as far as the field team is concerned, you have to simplify the process as much as possible when it comes to technology, because in many aspects, our field team comes from the same place that our clients are coming from, so they are not very highly educated or experienced people when it comes to technology. So given all of that we have developed a complete bottom-up approach to the entire technology that we use - starting right from the time that the customer shakes hand with the field officer, the field officer can efficiently run an Aadhaar check and the credit bureau check on the customer using his mobile phone and get either a yes or a no or maybe answer right there with respect to whether that customer is eligible under our profile. From there, he can schedule trainings, branch manager can schedule what we call GAT "the group approval test", which flows into our HO credit team. It will take me a while to explain everything, but basically everything is integrated into one flow and everything is mobile based as much as possible for the field team and of course, it is a web-based desktop interface for our credit team and our HO team and we have shifted the database to the cloud, so there are no server requirements or anything like that anymore. And to be very honest with you, it has been a little bit of an uphill battle getting this ERP implemented and it has been quite a learning experience for all of us and mostly for me as well. It will take a good 3 to 6 months I feel to get all the efficiencies out of it, to get people properly adapted to the new system, but I think moving to this technology platform is really a no brainer at this level, so currently when we are trying to reach Rs. 700 to Rs. 800 crores of AUM, I think we need to standardize or use technology as efficiently and as much as possible. But that being said, technology is a bottomless pit, so we will have to find the right balance and not overuse technology without gaining any significant incremental efficiencies.

Vinay Ambekar: What was the cost incurred in this, have you incurred it entirely in the P&L for FY19 or you have amortized it through fixed asset in the balance sheet?

Aalok Patel: It is a structured cost to be honest, I don't have all the terms in front of me, but the licensing works on an upfront cost initially. That is of course in the 7 figure sort of range and there is a licence fee that we have to pay per branch that we open, so depending on how many branches we open, the cost could very much run into half a crore kind of a range plus hardware and everything other than that. So overall, it sounds like a large amount, but it is not very expensive, on an AUM basis. And the good part is as we grow and as the number of branches increase, we don't have to pay for this cost upfront.

Vinay Ambekar: I was asking regarding the IDC for personal loans that the government is thinking of introducing where it involves a loan waivers for individuals who kind of fall into the MFI category, so any thoughts on those?

Aalok Patel: To be honest not really, I think these loan waiver rumours, keep flying around all over the place. Until it reaches a certain point where I need to worry about it, I think it is best not to make any comments on that right now. But that being said, we have been through a lot of loan waivers in MP and UP and in Rajasthan to a certain extent as well, so it did not affect our operations at that time. In the future if the government comes up with such loan waivers, they will have to open up their coffers to make good on whatever the customers owe us I am assuming, so that will have net 0 impact as far as the financials are concerned. But, nonetheless I think it raises another pertinent question about these loan waivers spoiling the overall credit culture and I feel that is the much larger issue at hand rather than talking about the loan waivers itself. I think that it has tremendously negative impact on the overall credit culture of the rural borrower I certainly think that the government should be very discouraged to come up with such schemes.

Moderator: Thank you. The next question is from the line of Saptarshi Chatterjee from Centrum Portfolio Management. Please go ahead.

Saptarshi Chatterjee: Sir, my question is that in FY20, we are going to open around 40 branches in MFI and 10 to 12 in the MSME and we are also incurring expenses on the technology side. So, what is our outlook on the operational expense or OPEX to assets for this and next year?

Aalok Patel: We are opening a lot of branches this year, but proportionately we opened so many branches last year as well and as a percent of profit or a percent of portfolio, I don't think the technology is going to add that much of a burden to the overall cost. So, I don't think that the operating cost is going to significantly increase next year compared to the past year. If anything, we might gain some operational efficiencies which are more than what we have spent on the technology side. But it is a little early for me to comment on that right now, but I don't think there will a large impact on the OPEX side next year.

Saptarshi Chatterjee: And what is our capital adequacy ratio and what kind of capital are you planning to raise?

Aalok Patel: So, we have sufficient capital right now to meet our growth requirements for the end of this fiscal year. I think the CAR ratio on a consolidated basis will be approximately 30%. So just to give you an idea, we have about Rs.130 crores of equity on a fully diluted basis, another Rs. 15 odd crores of Tier 2 subdebt, and another 6 crores is sitting in accrued CCB interest which will get converted into more shares in October. So, let us put that figure at Rs. 150 crores and if you add in another, let us say, Rs.20 crores of profit at a minimum and you are talking about somewhere around Rs. 170 crores of tier 1&2 capital for this year. Not counting the loans which are off balance sheet that we have securitized, I think we can probably easily reach somewhere around the Rs. 1000 crores. So probably in Q4, we will start evaluating the next equity fund raise, but I don't think there is an immediate concern on the capital adequacy of today.

Saptarshi Chatterjee: And sir, in terms of MFI, my calculation shows that the yields have come down in this quarter compared to last 3 to 4 quarters, so are you seeing any kind of pressure and what is the outlook on that?

Aalok Patel: So the NIMs have gone down because of function of leveraging and certain expenses related to securitization and other borrowing cost which happened in the last quarter that you have to frontload, so that is why you will be seeing the NIMs going down to a certain extent

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Naredi Investment. Please go ahead.

Sandeep Agarwal: Sir, my question is regarding the company's borrowing cost, the average cost is 14.75%?

Aalok Patel: That is the marginal cost.

Sandeep Agarwal: Sir, we get 50% of our total borrowing from financial institutions, sir what is the cost of borrowing costs which we get from financial institution?

Aalok Patel: It can be as high as 15.5% as well, but this the all-in cost, so it includes everything including processing fees, cash collaterals and other impacts

Vivek Modi: The overall cost is a blend of where it is coming from and also the timing, so we still have lot of loans which have been taken around the demonetization time when the interest rates were pretty high. So, over a period of time the interest rates have come down based on our overall credit rating and then costs have moved up again in a cycle in the quarter 3.

Aalok Patel: So just to give you an example we had managed reducing our marginal cost of borrowing in Q2 of last year to almost 13.6%. Then after the liquidity crisis, further borrowings were happening at (+15%), so it just depends on lot of factors to be honest with you, it depends on supply and demand.

Sandeep Agarwal: The promoter holding in the company is only 39.75%, so any specific reason for that and is there any plan to increase promoter holding?

Aalok Patel: I wish it was lot higher to be honest with you. This is a function of diluting starting all the way from 1995 till 2019. At every dilution, we have managed to put in some of our own money to not dilute as much as the transaction called for but no, I think at this point it will probably go lower, not higher in further dilutions, but in NBFCs, this is quite common. I think as you keep growing, money is our raw material and you can only borrow up to 6 times your equity, give or take, so if you want to grow faster than your return on equity you will have to dilute at some point and as far as the promoters are concerned, there are limits as to how deep my pockets also go. So I don't think that at this level we can match dollar to dollar on any dilution that occurs in the future, but of course we are willing to participate in whatever small way we can.

Moderator: Thank you. The next question is from the line of Prashant Pawar from New Berry Capital. Please go ahead.

Prashant Pawar: Sir, as you mentioned, the borrowing cost has gone up in the last quarter or the last year. So can you just elaborate what is your borrowing cost in-terms of only the interest cost without the processing fees and other costs?

Aalok Patel: Usually, I look at it from an IRR perspective, so I am not exactly sure what the average is after removing all those processing fee and cash collateral components will be, but my guess is somewhere around 13% on a blended cost.

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

Amit Mantri: So just on securitization, I wanted to understand, do we carry any risk on the securitized assets on the balanced sheet?

Vivek Modi: About 8.5% is on average right now.

Amit Mantri: And you have mentioned that you are now carrying 2 months of cash for deployment, we were carrying it even in Q4, is it? And what was the impact in Q4 because of the higher cash balance?

Aalok Patel: Rather the decision was made in Q4, but to get the balance up to 2 months took us pretty much the entire Q4, so the impact will be in the Q1 this year. So, it will be about let us say, on average balance of about 80 crores, we take about 6% loss on that.

Amit Mantri: And any update on the conversion of the class B shares? Any timeline on that because it has been quite some time?

Aalok Patel: As far as the update on that is concerned, so we have approvals from BSE, NSE, SEBI which is great. We have approval from all of our creditors as well and now the matter is sitting in NCLT for essentially their signature. The next stage will be the shareholder approval which we are estimating will be sometime in July, and after that shareholder approval comes in, I don't think there is any other further hurdle. Let us hope to get it done as quick as possible, but the judiciary takes its own time as you are well aware, so I want to get it over with as quick as possible.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

Aalok Patel: Thank you everybody for joining the call and thank you for the very insightful and sometimes tough questions. Hopefully, I have been able to answer all of them to your satisfaction, if not you are welcome to email Vivek or email me or send as a line somewhere and we will be happy to get back to you on that.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.