

Transcript

Conference Call of Arman Financial Services Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Honeyla, moderator for this conference call. Welcome to the Q3 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, WTD. 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. I would now like to hand over the floor to Mr. Bhavik Mehta from Antique Stock Broking Limited. Thank you and over to you sir.

Bhavik Mehta: Hi. A very good evening to all of you. Today we have with us the management from Arman Financial. It declared its results day before yesterday. And we think that the results were commendable considering the demonetization. So, on the onset I would like to handover the floor to the management. Jayendra sir, you can give us the overview of how the entire demonetization affected your demand for loans, your collection and how do you see the things going ahead and then probably we would open the floor for questions and answers. So, over to you sir.

Jayendra Patel: Thank you Bhavik. Very nice of you for a generous introduction. Thank you so much. Good afternoon ladies and gentlemen. And I thank you for joining us for the Q3 FY17 earnings conference call to discuss the results and the overall state of affairs.

First, let me start with the results. The top line income from operations increased from 28 crores to 41 crores for the nine months ended. This is a 47% increase quarter over quarter. The 9 month income increase was a very healthy increase of 49%. PAT was 7.1 crores, a 30% increase from the same nine months, the previous year. This included a onetime charge of 1.6 crores for an additional provision on standard assets for the microfinance division. This increased our provision on standard assets from a statutory required 1% to 2% and was created as an abundant caution to offset any potential future write offs, due to the cash liquidity crisis. In a nutshell, we have made a provision of 2% instead of 1% which is required by the RBI and because of the extra provision, the profit was depressed by about 1.6 crores.

We now have about 85 operating branches. 78 branches out of that is for the microfinance. 5 branches are for two-wheelers and 2 branches are for MSME pilot that we have started. Asset under management has increased from 156 crores to almost 200 crores, from December 2015 to December 2016. At our peak in October 2016, asset under management had reached 230 crores. So, we took a hit of about 30 crores drop in the AUM. However, we conservatively choose to stop disbursement in our

microfinance segment in November and December, until cash liquidity and repayment returned to normal, which has reduced our AUM from the previous quarter. We have slowly started disbursements. From this month, we expect disbursement and AUM to start reaching normal level by April 2017. Repayment rates are continuing to improve. Cumulative repayment rates since 9th November until 31st January is 94%. In most of our branches, the demand versus collection has returned to 99% plus. However, there are isolated pockets we are facing certain political and genuine issues. This will get resolved in the due course of time.

Our two-wheeler disbursement and repayments have returned to normal very quickly. And it is now business-as-usual into those segments. Our MSME pilot, which we started conceptualizing six months ago, is performing well and we should be ramping it up over the next fiscal year, while opening another four to six branches in the fourth quarter.

Overall, ladies and gentlemen, I want to assure you everyone that our business is very strong. Our repayment rates are significantly better than most of our peers, both on the national level and the State level. If anything, our conservative lending and operational practices have been vindicated. We have plenty of liquidity and capital on our balance sheet. And as I mentioned earlier, we have already created 2% provision on standard assets for the microfinance as the worst case scenario. The demonetization impact in the long run will represent a speed bump. We are eager to put it behind us and continue with our growth plans beginning this month.

I know there will be plenty of questions to cover this time. So, to spend our time in the most efficient way possible, Bhavik, I request you to open the line for questions.

Bhavik Mehta: Sure sir.

Jayendra Patel: Thank you very much.

Bhavik Mehta: Sure sir. Now, we can open the line for the questions and answers.

Question and Answer Session

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

Sir, the first question comes from Mr. G Vivek from GS Investments. Please go ahead.

G Vivek: Good afternoon sir. Just wanted to know about, now this new loan waiver promises being done by the BJP party in UP and consequently asked by other politicians in other States to going for loan waiver, what impact can it have on us? And second is, our customers, are they basically such entrepreneurs of high degree that most of them and rather all of them and that they can service this high rate of interest please? Thank you.

Aalok Patel: So, your first question is about the loan waivers. So, there were isolated incidences in certain areas of UP and certain incidences in Maharashtra, where there was a talk about loan waivers and things of that sort. Now overall, we are somewhat protected for two reasons. First of all we are not in any of the most affected areas in the UP and Maharashtra. So, in UP the most affected area is Western UP and Maharashtra, it is areas like Nagpur, Wardha, Amravati, to some extent in Sangli as well. So, we are not in any of those areas. Besides Nashik, in both of those States, our operations are almost normalized now with repayment of 98%. So, I think we should be okay. Now, if there is a general waiver State wise granted by legitimate Government, I don't know. Time will tell. But, I think the chances of that are highly unlikely, considering that if there is a loan waiver, then the Government will have opened its own wallets to possibly reimburse the banks or the companies for such a waiver. But, I think it is highly unlikely. So, we will have to wait on that. Your second question is regarding the high interest rates. The (not clear) are borrowing money from us have, I guess the way I understood your question was that, whether they generate enough revenue and enough margins in their own business to service our debt. Is that correct? Is that the crux of your question?

G Vivek: Correct.

Aalok Patel: Okay. The thing is that, that formula only works when you are giving large loans to large companies, because it breaks apart on the micro level, because you are not accounting for their own labor. The money is not there to generate the returns as much as it is there to give them access to the tools necessary to generate that revenue. So, I will give you an example. This is a classic example, so bear with me. A person who is a vegetable vendor is pulling cart all day to sell vegetables. And he buys Rs.5000 worth of inventory in the day and walks around all day to sell that inventory at Rs.6000. He made Rs.1000 profit for working that entire day. Now, again this is a simplistic example. But, what kind of return is that? But, of course he has to put in his own labor to push around the cart the entire day. So, your question is relevant, but it breaks apart at the micro level that we operate in.

G Vivek: Okay, thank you. And one more question is about, any positive impacts of the demonetization, in terms that in the recent budget, the budgetary support for MUDRA Bank was doubled. And the regulatory concerns, have they been laid to rest by RBI and all those things, any positive impact from the budget?

Aalok Patel: We were expecting a lot of help from the budget (inaudible). For businesses, we were expecting sort of a more stellar budget. The MUDRA budget has been increased. But, the MUDRA budget is a little bit hard to interpret sometimes, because that doesn't mean that they have allocated that much budget. It just means that they are targets. So, since we are a member of MUDRA, all of our disbursements count towards that target that the Central Government has made. And it also includes all banks, any loan that the bank is taking that is less than 5 lakhs or 10 lakhs gets considered in MUDRA. So, it doesn't necessarily mean that the Central Government has allocated that much budget to lend towards or to disburse towards to MUDRA loans (audio break). I don't think so it is too helpful, but let us see.

G Vivek: The regulatory concerns in terms of RBI being the ultimate authority to control MFIs?

Aalok Patel: RBI is the ultimate authority. It is the regulator. But, I don't think that has much bearing on the situation we are in right now, considering (audio break) RBI can do and (audio break). They can tell people that we are the ultimate regulator for NBFCs and MFIs. But, as such I don't understand the context of your question regarding RBI.

G Vivek: No, basically the people were saying that the Chief Minister of Maharashtra Fadnavis came out with a statement that the microfinance, which are governed by RBI are not our target. They will be allowed to do business in their own manner. But, the unregistered microfinance companies who are doing on their, charging with exorbitant rate of interest, they will be put to close. That was the statement.

Aalok Patel: Correct. There was a statement like that and there was a large campaign that we can had as microfinance companies. But, just one second.

Jayendra Patel: Let me interrupt here. What the CM of Maharashtra said that as far as the NBFCs, MFIs, which are registered NBFCs, MFIs have an open field to play around with. What he is referring to, there are lots of other small, small companies, which are doing in rural areas, the microfinance business without having an MFI license by the Reserve Bank of India. And they are basically money lenders. These are the people that they want to crackdown. These are the people which are unregulated and are charging horrendous amount of interest. Not like NBFCs, MFIs, which are governed and even their interest rates are governed by the Reserve Bank of India. That is what he said.

G Vivek: Correct. What is the status of the, what has been the impact of the demonetization on these money lenders? Is any consolidation happening and anything positive happening for the registered organized players in microfinance?

Aalok Patel: We are quite unclear about that at present.

Jayendra Patel: At this time we are working very hard to keep our stables and our horses straight, rather than worry about them. But, I am sure the liquidity crisis has hurt everybody. And they being absolutely unregulated, I am sure they are hurt more than we are. So, let us see. The time will also tell and the Government crackdown on the unregistered NBFCs is also increasing. So, hopefully something good will come out of it.

G Vivek: How long will the situation be back to normal sir? Last question.

Jayendra Patel: I expect that April or May, the situation should stabilize. I personally feel that even today, there are some liquidity crisis and people are facing, as far as the repayment is concerned, in certain pockets of the country and also in certain rural banks, we have a liquidity crisis. If you want to approach the banks for a certain amount of cash of 5 lakhs, 10 lakhs of rupees of cash, they sometimes do not have it. So, it is getting improved. But, it is going to take little more time than what we anticipated.

Aalok Patel: Also if it was just a problem of cash liquidity availability, that will get solved rather quickly. But, the issue is more about the areas or the people,

where their livelihood was affected for a couple of months. And these were a lot of people who are in occupations, where they earn money and it is hand to mouth straightaway. So, in those pockets, it will take a couple of more months. So, that is why about April, May it should get solved. But, we have seen a significant improvement across most of our branches, besides a few isolated pockets we can discuss later.

G Vivek: Okay. Thank you.

Moderator: Thank you sir. The next question comes from Ms. Siji Philip from Religare. Please go ahead.

Siji Philip: Good evening sir. Couple of questions that I wanted to ask. So, because of the demonetization effect, we saw our AUMs declining by 7% sequentially. So, earlier in the call you had said that it would last for a couple of months more. So, in the March quarter, how much decline can we expect in the AUMs?

Aalok Patel: Just to kind of give you some background, our two-wheeler operations are almost back to normal. So, I don't think that we should see any decline in the two-wheeler segment in March compared to the previous quarter. In the microfinance segment, we have already started disbursing. However, there should be a little bit of a decline in February further to about 100 crores. From a peak of about 165 crores, we expect our lowest levels of somewhere between 100-115. We already have the structure in place to disburse between about 26 crores to 30 crores in a month. So, the branches are in place already. We are just waiting for the liquidity crisis to clear whatever impact demonetization has had here. People will start (inaudible) their wages become normalized etc. And repayment normalizes not only for us, but for the industry as well, before we make any sudden moves with large disbursements. So, to answer your question, about 115 crores. It was at about 160 at its highest.

Siji Philip: So, the disbursements that we have stopped in November and December, have they started slowly, as in how much disbursements would be done in January?

Aalok Patel: So, the disbursements, most of November and December went towards this entire fiasco of repayment rates. We were, most of our efforts went into ensuring that our clients continue their repayments and to ensure that they were able to exchange their notes and just figure out the entire demonetization. Of course there was no cash availability as well from the banks to make disbursements. And as you know, going cashless cannot be one or two months' affair. It requires a lot of systems to go cashless/less-cash. So, November and December, there were no disbursements. In January we did a little bit of disbursement, but most of the month went into recollecting all the stuff that we had not collected in November and December. In February, from this month we are starting at about with a target of 8-10 crores. That is one thing. Second thing we have done is that, we have created a mechanism to disburse cashless in UP and Maharashtra. So, there disbursements are happening completely cashless now, from this month onwards. And slowly we can start enforcing that in MP and Gujarat as well. But, we wanted to start in the smaller States. We have also tied up with one of the BCs of SBI to open accounts for the clients that do not have accounts and set up a system, set up the IT infrastructure, set up (audio break) to do cashless disbursements.

Siji Philip: Okay. And another thing was, about this provisioning that we did this quarter. So, since the situation is getting normalized, it may take at least one quarter. So, could we expect a similar provisioning in the March quarter as well?

Aalok Patel: We are not sure at this point. It depends on whether the situation continues the way it is. If it continues to improve, I don't think it will be necessarily for us....I think that will depend a lot on us, our discussions with the board and taking a serious hard look on a State to State and a branch to branch basis regarding what the anticipated loan loss is. But, at this point of time, I don't think we expect more than about 2%.

Siji Philip: Okay. And sir, about the employee cost, since we had addressed the employees this quarter, so what is the outlook in the fourth quarter?

Aalok Patel: Employees will probably be the same. So, even though the disbursements had stopped and the AUM has reduced, we still have couple of things here. We did not do any layoffs or anything like that, because that not only causes demotivation, it is disruptive to the overall business. And when you want to restart business, it becomes very difficult to recruit a lot of people, because good talent nowadays is hard to find. So, we have continued with our workforce as it is. And in several cases, where there were no disbursements, we had to ensure that since they would not get any incentives, we gave them an average incentive, just to make sure that their wallets don't take a big hit. This is just, I think this is something that was absolutely necessary for us to do, to take care of our employees during the crisis.

Jayendra Patel: We want to keep them motivated. And I always look at it madam this way that you are what your people are. And we have stuck to those principles. Even in their bad times, even in the bad times generally speaking, we have stood by with them. And I think they are my biggest assets.

Aalok Patel: Another point to note also is that, we had done a lot of our recruitment with the targets that we had in mind for FY17. So, we have done recruiting with about a three-month lag. In other words, we have to hire people today that we will need three months down the road. So, we had a lot of extra staff that we had hired to put in new branches and to start disbursing to help our business targets. That kind of got thrown off the loop. But, I think we have done a pretty good job overall through some natural turnover that it hasn't been disruptive. Other areas like two-wheeler, our staff size has increased, because we are planning an expansion in those areas. And naturally the employee cost has been a little high, but I think it will pay off in the long run.

Siji Philip: And sir, one more thing about this SME pilot project that we have started. So, till what time would it be fully contributing to our AUMs?

Jayendra Patel: We have reached a disbursement level of about 1.3 crores at this point. We have already opened three additional branches, one of which has already started disbursement this quarter. By the end of the year, I think we can open up about six branches. After that, as far as the contributions to the overall profit, it will take another six months or so. It will take another two quarters to start seeing an impact on to the bottom line. But, we are quite confident based on how it is running. And there is a real need for this segment as well. We are fortunate of being one of the first movers.

But by FY18, we expect that it will go to about 80 crores to 90 crores AUMs. That is our target.

Siji Philip: Thank you sir. That is all from my side. Best of luck for the future.

Moderator: Thank you ma'am. Sir, can I go on to the next question?

Management: Please, please go ahead.

Moderator: The next question comes from Mr. Agarwal S from Crest Capital. Please go ahead.

Yash Agarwal: Hello?

Management: Hi. How are you?

Yash Agarwal: Yeah, this is Yash. Yash Agarwal here. Sir, I joined the call a little late. Any RBI dispensation you have used for your NPAs, for delaying the recognition for NPA this quarter?

Aalok Patel: There is an additional ninety day-provision for OD that occurred in November and December. So, between October 1st and December 31st, whatever OD has come on, they get an extra ninety days. What that means is that, their clock starts on April 1st for overdue between November and December. And additional ninety days after that is where you recognize them as an NPA, which will be July 1st. And then ninety days after that, which will be, October 1st, is when you start recognizing them as a write off or into your provisioning or whatever. So, there is a ninety day dispensation.

Yash Agarwal: So, what about you, have you utilized any amount?

Aalok Patel: It is too early so it will come into the play in the next quarter.

Yash Agarwal: No, you don't know if you have utilized or you have taken this benefit, any amount?

Aalok Patel: There is no benefit to take in the December quarter, because clearly.....

Yash Agarwal: So, what fell into NPA between October or December, which was ninety days overdue, are there any accounts like that which you haven't recognized and you are waiting till April?

Aalok Patel: This ninety days overdue in December 31st, would have been overdue that occur between September 30th. There is no dispensation overdues that occurred prior to November. We have recognized that as it is. The dispensation is only towards the overdue that occurs in November and December. So it will not have any effect in this quarter. It will be in the coming quarters. It will only be in the following quarters that you will see any impact.

Yash Agarwal: Okay. Maybe I will understand this later. Few more things, this gross interest income on your microfinance book, so sequentially your AUMs have declined, but your interest income hasn't come down, why is that basically?

Aalok Patel: For the AUMs, in any finance company, you are earning income on the business which you have done twelve months ago, nine months ago, six months ago. So, the repayments have been impacted by about 6%. But, 94% of it is what we have already collected and put interest on it. So, there wouldn't be material impact on the interest levels immediately, that will come spread out over the next year. But, it wouldn't be that much long as we maintain the AUMs even at the previous year level, it shouldn't, the income shouldn't decline. It should be at the steady state. Or, if we manage in increasing the average AUM, it should increase. But, the income you are seeing is basically on the average AUM. And two months does not have a material impact on the average AUM.

Yash Agarwal: Okay. And sir, on cost to income, what is your guidance? Because obviously this quarter, it is looking little elevated, because of the higher cost maybe lower income due to AUM, there was no AUM growth. But, what is the FY18 sort of guidance or anything that you want to give on any target or any cost growth guidance?

Aalok Patel: This quarter the AUM declined, expenses kind of remained the same of what they were in the previous quarter. The main expense you are seeing is that 1.6 crores that we added in provisioning. So, that was a onetime cash charge or write off that we did. And that was just for an added precaution.

Yash Agarwal: Is it included in this other expenses of, in expenditure analysis of 1.6 crores?

Aalok Patel: Yes, it is included in the other expenses. I think the total provisioning was, if I am not mistaken was 2.12 crores. So, of that 1.6 crores was additional what we did on our own and the balance was statutory provisioning and that we had to do anyway. So, that is what you are seeing in the other expenses. From expenses perspective, we tried to, our expenses typically we measure from an AUM perspective, as a percentage (audio break). So, our percentage to AUM expenses are somewhere in the neighborhood of 8%, it kind of fluctuates from quarter to quarter. But, between like 7% to 8% is what our typical operating expenses work out to be. And this quarter and the coming quarter, it should be slightly higher than that. But then after that it should normalize.

Yash Agarwal: Okay. And sir, if I correctly understand, the microfinance would go down to 115 crores by March, is it?

Aalok Patel: Yeah. It depends upon how much disbursement we manage doing in this month and next month. But, about 115 to 120 is my expectation. It could be higher than that also.

Yash Agarwal: And sir, in SME, what sort of monthly disbursement you mentioned you are doing, for SME?

Aalok Patel: Last month we did about 1.2 crores.

- Jayendra Patel:** That is very pilot stage.
- Aalok Patel:** That is very pilot stage. It is only through two branches.
- Yash Agarwal:** And typically what is the ticket size and the yield on this SME?
- Aalok Patel:** Ticket size average is about 82000 and varies depending on the risk from 28% to 32%.
- Yash Agarwal:** Okay. And this you expect it to be 80 crores by FY18?
- Aalok Patel:** That is what we have set our targets at. But, it is little early. Let us open up few more branches. We are only about four to six months into the pilot. And once the full year, we will have a better idea of where things stand.
- Jayendra Patel:** But, all the indications are in that direction. I think we should be able to concentrate more on the MSME, because again there is no cash requirement. We are absolutely doing this disbursement through any MPs. And the repayments are also into non-cash basis. So, we should be okay as far as our targets are concerned.
- Yash Agarwal:** Alright. Thank you. Thank you so much.
- Moderator:** Thank you sir. The next question comes from Mr. Kaitav Shah from SBI Caps. Please go ahead.
- Kaitav Shah:** Good afternoon gentlemen. Thank you for taking my questions. How do you see the risk of political intervention playing out and how are you prepared for that?
- Aalok Patel:** As far as the political interference is concerned, this was always a significant consideration, this has always been a risk. Post demonetization, it has increased or certain pockets have been fired up more than usual. But, political risk is something that we have always considered since the inception of microfinance. And I don't know, it is very unpredictable to make any comments on it right now. While there was a huge outcry during November and December regarding political interference, by far and large it has died down in most areas and at least in the areas that we operate. There are certain areas in UP and Maharashtra that are still going on. And especially in UP because of elections, it is happening a little more. But, now the elections have started, we should start seeing that going down as well. So, I think the political interference is something that is inherently part of this business or rather any lending business, any small ticket loan that any bank or anybody is making. Political interference is very much a part of our overall industry risk.
- Kaitav Shah:** Okay. And did you have any branches that had kind of zero collections and what is the status there?
- Aalok Patel:** We didn't have any branches at zero collections. Our political interference, there were a couple of branches that we have. One is in Nashik in Maharashtra and the other is in Bhuj in Gujarat. The Bhuj issue, we have already

managed tackling. So, I don't think that will be a big issue. The only branch that we have currently where we are facing significant issue is the Nashik branch in Maharashtra. Otherwise, almost all branches have normalized. But, even throughout demonetization, the lowest that repayment rates went were somewhere between 82% and 86% for all branches combined. We never faced any situation where we were getting zero recollection. So, that never really was an issue for us. From an individual branch perspective, the lowest recollection went was to 42% and that too only for a couple of weeks. So, right now for example Nashik branch, we are still getting about 70% recollections, which is one of our worst branches. Overall cumulative repayment has been 94% until January 31st. So, we managed collecting a lot of the stuff that got put into overdue in November and December. And as time goes on, we should manage collecting the rest of it as well and returning the repayment rates to normal.

Kaitav Shah: Okay. And the second is, it is interesting to note that now you are all disbursing through mechanized mode, through banking channel as a pilot project. Just your thoughts on the fact that doesn't the client have issue in removing that money and then using it in cash, because at the end of the day he has to probably pay in cash?

Management: Yeah. Sorry, go ahead.

Kaitav Shah: So, how do you deal with that inconvenience? Because, if you are doing the same thing as the bank is doing, then would it not impact your scalability?

Aalok Patel: I think this is, earlier we were getting a resistance from the client side as well, saying that, okay, they are not into the regular banking channel. And in some respect, this is what I always told people, asking, why aren't you disbursing through banks, is that it is inconvenient for the clients itself? But post demonetization, even from the client side, it came as quite a shock. And overall they have to, even the clients and the companies themselves, they have to make peace with the fact that this is something that is coming and you have to accept it. So, going towards the cashless disbursement is something that now in light of demonetization is absolutely necessary. So, from the microfinance perspective, I think you should see a lot of innovations on that end. Already we are seeing it, like for example, the BC that we have tied up with, they are BC of the SBI bank. And they have a huge network of micro ATMs, which are at the village levels. So, these are not full-fledged banks. But, our idea is that our clients can go to these micro ATMs to withdraw the funds. Earlier we were concerned in January as well that if we disburse in banks, the clients won't manage withdrawing the money or there was a limit of about Rs.10000 on Jan Dhan accounts and other things. But, by far and large, I think those limits have been removed although I think the Jan Dhan limits are still there. I think savings accounts limits have been revised to Rs.50000 per week. So, anybody with a non-Jan Dhan account shouldn't have any problem. With the Jan Dhan account, we go in with the full disclosure with the clients. And that becomes the tricky part about, as far as the disbursement is that, this is another filter for the customers. I will have to reject the few clients who don't have bank accounts or cannot open it. So, this is one another filter. But, let us see how it progresses. I think our clients have also made peace with the fact that they will need to open bank accounts and this is the way it is going to be in the future. For me, it is quite advantageous actually to make disbursement through bank accounts, because making in cash came with the lot of operating cost, surrounding controls that I have to keep around cash. If I

have to make it directly through a bank transfer, it becomes very easy for me. I don't need those redundant cash controls over my branch levels, when I am disbursing in cash. So, for me the advantage is, let us see if the clients are accepting that or not.

Kaitav Shah: Okay. And do you see increased competition or competitive intensity from banks coming in?

Aalok Patel: I don't think so. I think banks have been trying to break into this business model for better part of two decades. And whenever it comes to the most advantageous model, they have found it to either tie up with some MFI or to acquire an MFI or to appoint them as a BC. So, themselves doing it is, I think highly unlikely.

Jayendra Patel: This is not their cup of tea.

Aalok Patel: Yeah, as he said, this is not their cup of tea. Their operating model, their operating costs, their salaries, the kind of employees that they hire, it is completely out of sync with microfinance in general.

Kaitav Shah: Okay sir. One last question if I am permitted. So, I missed the part on your disbursements in the month of Jan, Feb, so far that you have seen versus November, December. How have they panned out? What is the increase that you have seen?

Aalok Patel: January, we did not do much disbursements, because there is a one-month lag between the credit bureau reports. So, for us, we were a little scared that when we start making loans, is it going to be going to an overdue member? Are they using that cash to go towards repayments, go towards consumption? So, we kind of took a conservative call in January as well that we were going to go slow on the disbursement. That being said, it was about 2 crores, so barely about 10% of our usual monthly disbursements. In February, we are starting with about 8 crores. Next month, we should hopefully bump that up to about 15 crores. And starting from April, we should go past 20, which is close to our usual level of disbursements. So, the peak disbursements we have in October of 26 crores, but that was during the festive season, so that is usually on the higher side to begin with. Our overall targets would have been somewhere around 30 crores by this time. But, as Jayendra bhai said during initially that this was a speed bump in our growth. So, about one or two quarters, you can expect there won't be much growth. So, you will have to probably discount the last couple of months, third and the fourth quarter results will be on the slow end.

Kaitav Shah: That is it from me. Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

The next question comes from Mr. Amit Jaswani from Stallion Asset. Please go ahead.

Amit Jaswani: Congratulations sir, on the 94% recovery rate. That is really good. Sir, in the last concall you had said that every dog has its day. Today is ours. Do you believe that the 30% kind of growth rate will come back?

Aalok Patel: Yeah, every dog does have its day. But, I don't know in what context we said that in. So, I kind of forgot, I think that was from the lending side.

Jayendra Patel: That was in reference to the money being available from the banks versus financial institutions.

Aalok Patel: From the banks. For us, I think the growth of 30%-40% is absolutely possible. In fact it should be more possible now, given the fact that most of the MFIs portfolio is going to be declining in the coming couple of quarters. So, there will be a vacuum that is created in certain areas that we can take advantage of. And there will be vacuum created by small finance banks as well, who are officially or unofficially, will have to go for a higher ticket loan sizes to meet with whatever model that they choose. So, overall it is definitely possible. But, post demonetization, I think people are going to take it easy on the growth side. At least, I hope that some of the more aggressive MFIs become a little bit more conservative and target a reasonable growth and definitely not in the triple digits. Because again, when you are growing triple digits in a finance company, at times like this, you do run into issues. And by some respect, our conservative nature, we have been vindicated to a certain extent, not only from the repayment rate, but also from the places that we opened up our branches. So, if you look at what areas we operate in, UP, Maharashtra, MP and Gujarat, these are the four most affected States as far as the repayments post demonetization. Even then we have avoided not going into the more affected areas. And that was of course, it doesn't always work. We have our share of troubled branches. But, by far and large we have avoided the areas which have the maximum amount of problems. So, if you look at MP cases like Sagar, Bina, Jabalpur, if you look at UP, like Western UP is the most troubled area. If you look at Maharashtra, you have Nagpur, Amravati, Wardha. So, all of those areas we have purposely avoided in the past. And I think it was a good decision overall. Otherwise we would have been in a lot more trouble than wherever we are right now.

Amit Jaswani: Right sir. We have been hearing about a lot of trouble in Amravati region in some other concall as well. Sir, one more thing that you said that if you don't give me cheap loans, I will go to the bank next down the road, something like that. Do you believe we still have that pricing commanding power that SBI had given us loans at 11.50, if I am not wrong, so do we still get?

Aalok Patel: We do. We have reduced our borrowing last quarter by 100 basis points.

Jayendra Patel: I still remember that I made a statement that if you don't give me the money at this rate, probably I will go across the street. That is what you probably meant. Yes, for a company of our repute and for my repayment track record, I personally feel that as far as the financial institutions and the banks are concerned, we are absolutely a good credit risk. And my relations with the banks are old and rather very productive relationship that we have enjoyed. And we are still in a position to bargain as far as the interest rates, as far as the processing charge and as far as the cash collateral components are concerned. So, I think just like any finance business, a good client is always a welcome.

Amit Jaswani: I had just one last suggestion. In UP sir, now that we have entered UP and we are lending in UP, are we taking some disclosure thing like, in case

there is a loan waiver that happens, you will still have to pay back to me? Because, we don't get into that loan, we don't get the money where the loan waiver happens?

Aalok Patel: (Not clear) what way, shape or form that people are envisioning loan waivers, I am still quite confident that it is not going to come, neither is it enforced. Even if it is State level waiver does come, neither it is enforceable on us, because we are regulated by the Central authority, which is the Reserve Bank of India. But, that being said, this is India, so anything is possible.

Jayendra Patel: Sir, mostly this loan waiver statements across India in certain pockets are coming from the local politicians, low, sort of a not very high reputed politicians, but low level politicians and those who are sort of buying votes. And if you see these loan waivers rallies, I have certain clippings; they have about couple of hundred ladies attending those and when they talk about, giving you loan waivers, there is a big, big applause and big round of cheer goes. So, basically this is what I personally feel is being used. As far as the RBI is concerned, I don't think and as far as the PMO office is concerned, I think they have never said anything about the loan waiver.

Aalok Patel: They have used the name of the PM. But, that is for farm loans. They are only talking about agri loans that are classified as agri loans from banks and certain places. It doesn't really apply to NBFCs. Although I do understand the risk quotient that when they talk about.....

Jayendra Patel: Yes, there is always the risk.

Aalok Patel: There is always the risk. But, it is a good idea that what you suggest that we take some undertaking from the customer itself that no loan waiver would apply to us and you will still have to pay.

Amit Jaswani: Because, yesterday in an interview to AajTak, Amit Shah has categorically said that the poor people, Amit Shah is the President of the BJP has categorically said that the farmers in UP need a higher platform. Loan waiver will be implemented as soon as we come to power. Yesterday if you see the interview in AajTak, Amit Shah categorically said it and he says it ten times in the interview. That was..... If these women don't know that boss, we are different from those agri loan types, so might just say that sarkar has forgiven us or something like that. That was just a suggestion. That was just a suggestion.

Aalok Patel: I agree. It is a good suggestion. We will definitely look into it. And you are right that there is a risk factor. But, let us see. People promise the moon pre-elections and let us see post elections what happens.

Amit Jaswani: Thank you sir. Thank you so much for your time.

Jayendra Patel: Sir, you must understand that you are in the business wherein you are serving the poor. And when you are serving the poor, these are the different political class. And you have to be ready for certain statements, which are not going to happen. There are always the chances here that it might happen. But, these are the inherent risk of the business that you are running.

Amit Jaswani: Absolutely sir, I agree. Absolutely I agree. And thank you sir, great quarter.

Jayendra Patel: Thank you sir.

Moderator: Thank you sir. The next question comes from Mr. Abhishek from Vision Capital. Please go ahead.

Abhishek: Hello? Yes sir, good evening. My question is, actually just now you said that you have started a pilot on the MSME project, started disbursing on a pilot level. So, going one year down the line, one and a half years down the line maybe, what is the blend that you are seeing between the microfinance MSME segment and the two, three-wheeler financing? How we see ourselves as a financing company? Where should our attention will more be towards? Is it towards MSME or microfinance bank?

Aalok Patel: That is an excellent question. And we have stated this on several occasions. When we first started microfinance, we wanted to have kind of a 50%-50% ratio between asset financing and micro financing. Microfinance provided a lot of growth opportunities. We sort of had to relook at our original intention of keeping that ratio. In the same way my intentions remains the same that overall the microfinance portfolio should not be more than 50% of the consolidated company's loan book. So, that is still the goal. However, only time will tell as to how successful MSME is and what kind of mix that we can get from MSME, two-wheeler and microfinance. But, if we can maintain 50% microfinance and 50% between two-wheeler and SME that will probably be the most ideal scenario, Arman and Namra combined.

Abhishek: Okay. So, just a hypothetical situation that MSME is maybe 20%-30%, so do you see increments in the NPAs, because we have been seeing, obviously the economic cycle have turned. But, still of the MSME finance have been much more safer than MSME financing. So, do you foresee a NPA increase?

Aalok Patel: Yes, yes, MSME we are expecting higher NPA and we are expecting a higher loan cost. I think we have considered that as a fact that just taking one step aside. In microfinance NPAs are so low, because the ticket size is low and you can depend on the joint liability. Here you are talking about a larger ticket size and that too, it is tied to the business and there is no joint liability component. So, overall without (inaudible), it is a still a no brainer that your risk is increasing. And because of that, we have accounted for that risk in the pricing. If you followed my earlier answer to a MSME question, based on the risk our pricing is also much higher in this product. Because, we are expecting about 2%-3% loan loss on this portfolio. And I think that is an average of this entire sector itself. So, on the MSME you should expect a higher NPA. But, we have accounted for that. And since we have accounted for it, we are priced accordingly.

Abhishek: Okay. One more thing which I have noticed predominantly is that obviously we have been a very conservative kind of lender. The (not clear) is the first thing which we try to get out with. And obviously when you have provided 2% extra than the regulatory requirement, then obviously that mitigates this stance. So, how you are going to manage the growth and the kind of bit of converse kind of approach which you are having. So, will you be able to balance it going ahead, let's say 30% growth in the AUM and with the same kind of conversion?

Aalok Patel: Yeah, that balancing has always been keeping our overall (inaudible). If you look at the last four to five years, our CAGR has been somewhere between 35% to 40%. So, that is something that we always wanted to consider. But, last 3 years has been a little higher. But, because of this demonetization I think you will average out again at around 35% to 40% in the long run. And that is the kind of appetite that we have. I think along with a very high growth model, you are adding a significant risk to your portfolio. You have to dilute that very frequently, your own equity. So, that is not our DNA. This is not our first crisis, let me just be honest with you. Since 1995 or 1992, there has been a whole lot of crisis that has come up, in the NBFC sector, in the finance sector. I think the last MFI crisis was during the AP crisis in 2010, before that there was 2007. Before that was the personal loan crisis. Before that, the NBFC scams like CR Bansali. So, these things keep coming and going. I think overall you should expect it every five to six years. And we will be okay though. I think we have a pretty strong balance sheet. And it shouldn't be much of a problem for us. But, as far as our growth, we can hopefully continue our growth starting from April, as it was.

Abhishek: Okay. Recently RBI had changed its stance from accommodative to neutral. And let's say, given inflation on the rise and if the interest rates goes up and even the competitive pressure from other MFIs and the banks getting into MFI industry as well, so do you see any pressure on the NIMs going ahead, because all the twin factors, the interest rate on the rise and even the competition from the partners and the banks in the MFI?

Aalok Patel: Our pricing to the end user is based on the margin that RBI gives us, to a certain extent. If it goes up marginally, we could manage recovering that from our clients. However, if it goes up subsequently, the interest rates, obviously that is going to put pressure on the NIMs. But however I think, the market is expecting the interest rates to go low. So, I don't think that that should be much of a problem. Plus, the interest rates, our own interest, weighted average cost of borrowings have reduced significantly over the last two quarters, almost by 100 basis points. In fact our cost of borrowings, if you consider all MFIs put together, we are lower than the average, that is big ones, small ones, medium ones. So, we do a decent job of keeping the interest cost low. And as our rating keeps increasing, I think the interest cost should continue to go down.

Abhishek: Okay. Sir, can you give me, just who is getting the funds at the lowest rate and who is at the highest within the MFI, which are in your segment?

Aalok Patel: Honestly I won't be able to comment on that. But, if you go on the MFIN website, there is a publication they do every quarter called Micrometer. And within that they do give averages of borrowing rates and lending rates for small, medium, large and all MFIs combined. For individual MFIs, like the larger ones get it at a cheaper rate and the smaller ones are highly dependent on the financial institutions. So, in that case it is a lot higher. But, other than that, I won't be able to comment individually.

Abhishek: Okay. Sir, you were saying that the interest rate which Arman is getting is lower than the average rate for the MFI. And it has already reduced 100 basis points in the last two years. So, is it because of the good payment history and obviously those kinds of things maybe you have good credit, right?

Aalok: It is because of the good payment history. It is because of the MFI segment having a better track record. It is because we have seen upgrades from BBB minus to a BBB. So, I think it is from everything, plus we crossed the 100 crores threshold. All of a sudden from a small MFI to a medium sized MFI. Those kinds of things all have an impact, but it would be hard to pinpoint just one thing.

Abhishek: Okay sir. Thanks a lot sir. Thanks a lot for answering the questions. And great, great quarter, congratulations on that side.

Aalok Patel: Thank you so much.

Moderator: Thank you sir. And that will be the last question for the day. And I would now like to handover the floor to Mr. Bhavik Mehta for closing comments. Over to you sir.

Bhavik Mehta: Thank you everyone. Thanks for participating in the call. And thank you to the management of Arman for taking out their time. Thanks everyone and have a great day.

Jayendra Patel: Thank you Bhavik. 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 good day every one.

Note:

1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.