"Equitas Small Finance Bank Ltd's Q2FY21 Earnings Call"

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to the Earnings Call of Equitas Small Finance Bank Limited Financial Performance for Q2 FY'21. We have with us today Mr. P N Vasudevan – M.D. and CEO; Mr. Sridharan N – CFO; Mr. H K N Raghavan -- Senior President, Inclusive Banking and Vehicle Finance; Mr. Murali Vaidyanathan -- President and Country Head, Branch Banking, Liability, Product and Wealth; Mr. Ram Subramanian – Head, Corporate and MSE Banking; Mr. Natarajan M – EVP, Treasury; Mr. Dheeraj M – Head, Strategy and IR; Mr. Rahul Rajagopalan -- AVP Strategy and IR; and Ms. Srimathy Raghunathan -- CFO, Equitas Holdings Limited. As a reminder, all participant lines will be in listen only mode, and they 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 '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. P.N. Vasudevan. Thank you. And over to you, sir.

P N Vasudevan: Good morning to all of you. I hope all of you have been keeping yourself safe through these tough times. Across the country, we see some positive signs, life is slowly but steadily coming back to normal, in most parts of the country, the number of new cases of COVID is falling, which is a big relief all round. We do hope and pray that as a country we manage to get over this pandemic soon.

As you will recall, we had encouraged our customers to avail the moratorium to preserve cash to help them restart their business, and we ended the moratorium period in the month of August with about 35% of the book under moratorium.

In September, our focus was largely to return to the near pre-COVID levels of collections. Hence, most of the team was deputed in collections. We have seen strong collection efficiency for both September and October with collection efficiency of slightly over 94%. We are confident of returning back to the pre-COVID level quite soon.

As we are seeing strong collections across products and states, we hope to start seeing our disbursement inch up to the pre-COVID levels. In the second quarter, as you might have seen, our disbursement was about 80% of the last year second quarter, and hopefully third and fourth quarter should be better because in second quarter, as I mentioned, September was a month where our focus was largely on collections. But today, our collections are under control, so we hope to restart business with the sales team going back to their business.

On the asset side, we continue to remain focused on growing our existing product segment. And have also started seeing green shoots in our newly introduced products like gold loan and used cars. Gold loans and used cars are both leverage products. Gold loan as a product where we are significantly targeting our own microfinance and retail borrowers. As per data that we have nearly about 35% to 40% of these customers have availed gold loan from someone else. So that is going to be our target to try and see how do we convert them to take gold loan from us.

And as far as used car loans are concerned, that leverage play on the network of commercial vehicle branches that we have set up over the years we are operational in about 210 branches for commercial vehicles and used car is going to be a product which will be leveraged to the commercial vehicle branches so that we can use the same infrastructure to roll out this new product. We now have a strong range of products centered around our customer segment.

Before I talk about our liability franchise, I will take you through the provisions we have created so far. The bank now has around Rs.170 crores of additional provisions towards COVID, which is about 1% of our advances. With 77% of our advances secured and almost all the states showing a good traction in terms of collection, I am hoping that in the following quarters, you would not have a dip in the provisions as we feel adequately covered at this point in time.

Coming to our liability franchise, we have started to see results and the hard work put in by the team. Our savings account balance grew by about Rs.825 crores over the previous quarter and retail TD continues to have its growth momentum going very strong. As you know our retail TD has been growing at over 100% for the last two years and that is keeping very much in line with the same trend.

Our Digi banking initiatives have started yielding very good results also. And we have acquired around 80,000 customers in the second quarter, and around 36,000 FASTags were sold digitally during this quarter.

Also, our "One India One Bank" campaign was received very well. And we now have about 15,000 account holders from areas where we do not have a branch location. This gives us the confidence of looking to expand to new geographies with a lighter branch network model in the coming years.

With our ROA and ROE touching 1.9% and 14% in Q2, and sufficient headroom left for operating leverage to play out, we hope to reach our targeted ROAs of 2.25% and ROEs of 15% in the coming quarters.

Lastly, would like to thank all of you for supporting us through our IPO. And in the times to come, as we focus on building a bank, which is scalable, sustainable, and most importantly, very stable. Thank you so much, and we will be happy to take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nihar Shah from New Mark Capital. Please go ahead.

Nihar Shah: Just a couple of questions from my side. The first question that I have is on your restructuring, can you just walk us through what are your expectations of how big the restructured book will be? And maybe in the two key segments of vehicle finance and small business loans, what are the guard rails that you are putting in place to sort of say that this is the type of account that we would restructure, and this is where we would maybe want to rather take them into the NPA pool. And the second question is on the expenses. Again, really good work done on the expense ratio, bringing it down to about 58%, the cost-to-income ratio. Is there any offs over here or do you believe that this is what we should think of as a normalized trend plus/minus a little bit as you build your franchise going ahead in terms of cost to income or cost to AUM?

P N Vasudevan: On the first point, in terms of rescheduling, we have started receiving some requests but as of now, it is very small, and as of now the number of requests we have received, amounts to I think is lower than 0.5% of our advances. Going by the current trend, and going by our own estimates, we have a belief that it may not cross 1.5% or so, that is what we expect as of now, based on the current trend that we see. In terms of rescheduling, the accounts that we are willing to look at for rescheduling is only those customers whose business is still impacted, and their cash flow is still impacted in spite of the system or the market opening up, they are still not able to get back to the regular full cash flow. But given a few months, given maybe two quarters or three quarters, there is a very high probability that they will come back to full normalcy. So only those type of businesses we are picking and choosing and allowing a rescheduling, examples of that would be like a heavy commercial vehicle operator who is operating for let us say a corporate and that sector in which the corporate operates is going through stress even today and the volumes are down, then that is an obvious candidate for rescheduling because in a two quarter timeline, the expectation is that the system should come back to normalcy and their cash flow should come back to normalcy. Similarly, in an SME business and all, let us say that he is doing a business which is connected with any sector, which is affected, our SME customers are very small, they are not even a supplier to the OEM, they will be a sub-supplier to the supplier, right, it is going to be very small customers. If that sector is impacted sector, then obviously, there will be some impact on them, and they will take maybe two or three quarters to come back. So only these are the kind of cases we are selecting for rescheduling. And given our type of borrowers, given our type of asset profile, I do not think we will have much problem as I mentioned earlier. On the cost, I will ask our CFO, Sridhar to talk.

Sridharan N: Good Morning. As you rightly pointed out, the expenses have come down. And the cost-to-income ratio which was 68% last year, right now for the half year it is at 58%, and it is likely to go to 60% level. And on the expenses, Q1 had lockdown and Q2 was moderate and the Q3 and Q4 is likely to be normal. So if you look at last Q3, Q4, it was around Rs.620 crores level and it is likely to be a little over than 10% level. So it is likely to settle at 60% of cost-income ratio.

Nihar Shah: Just a follow up on the first question that I had, besides what you mentioned, in terms of accounts where the underlying business might still be stressed, which might come in for restructuring, are there any sort of financial parameters that you are looking at, either in terms of what is the existing especially in your CV business, what is now the existing sort of loan to value ratio or any of those things, just to ensure that there is enough skin in the game for the borrower as well, who is going in for the restructuring

P N Vasudevan: Those are very specific individual case-by-case points that will be looked at. When a person applies for a rescheduling, naturally we look at what kind of security we hold. And if it is the vehicle, then what kind of LTV we hold on the vehicle, what is the quality or condition of the vehicle currently, all this will be the individual thing that will be looked at. And if we find a transaction where the customer equity into the transaction is very low, and our contribution is very high, then we will definitely insist on the customer doing something to improve his stake in the transaction before we accept. So these are the things which are very individually-driven.

Moderator: Thank you. The next question is from the line of Peyoosh from Serendip. Please go ahead.

Peyoosh: This is to get some sense in terms of benchmarking. Our current billing efficiency of roundabout 87% and collection efficiency of mid-90s. How would these compare to pre-COVID numbers, I mean, say the same time last year?

Dheeraj Mohan: I think business is as usual. I think the key businesses which we need to look at is one, microfinance. So, as you know, microfinance generally operates at a much higher billing efficiency of 98%, 99% at an industry level. So there is some catch up to do. The remaining all looks broadly in line. Vehicle finance I think at this point in time if you look at billing efficiency and also our x-bucket or our zero DPD bucket collection, it is close to 90% in October. That also looks fairly good from I think the industry commentary which we are all hearing. I think broadly everything seems to be closely in line except microfinance, which in our experience takes about one or two months more to start inching that to 98%, 99% levels.

Peyoosh: Slightly longer term. Would it be fair to say that ROA tree is derived from the following: 9-to-9.25% net interest margin, expense ratio of around about 5%, credit cost of 1% and a tax rate of around about 0.75%, 0.8%, would this be the basic metrics?

Dheeraj Mohan: This should be in the medium term, I would not say long term, because in the long term, I think these NIMs will also come down given that our book will start diversifying, and our expense ratios also should correspondingly come down. And given that the newer products we are doing are for a slightly better profile of customers compared to the typical vehicle finance where we see the highest NPAs, our credit cost should moderate slightly below. So, I think on the NIMs, you may want to moderate a bit on the long-term. In the medium term, I think you are fairly right.

Moderator: Thank you. The next question is from the line of Renish Patel from ICICI. Please go ahead.

Renish Patel: One question is on the retail liability piece. We have seen strong traction on the liability side across the board including other SFBs and for Equitas as well. So, do you think this momentum sustain in a post-COVID era also? If there is a market share gain, what sort of customers we are being able to onboard from whom maybe PSU banks or what sort of competitors we are gaining market share?

Murali Vaidyanathan: Hi, good morning. I am Murali here. I take care of liabilities branch banking. So, I would just like to give a perspective. All of us know liabilities a long term by definition. You acquire a customer and grow over a period of time. So, what we are doing conceptually is getting a mass segment of customer through digital, mass affluent through phygital, HNI through relationship management, and we have four segmented approach where we have four sharpened RMs who work on corporate salary, NR, TASC and current account. That is how we have built this channel from say last December till now. Now, what we are seeing is a lag effect of the lead what we have done at the earlier point of time. So, we are seeing the first signs of green shoots, which is sustainable for two reasons because it is not coming through little days of customer, we are broad-basing customer which means we have started acquiring close to 50,000 to 60,000 customers now month-on-month, 25,000 comes from mass segment, that is what we call it as digital, then we are acquiring 25,000 customers if you see which is coming from mass affluent using the branch banking, and our high value component which we call it as a program and product customers is contributing to 5,000 and now corporate salary has started giving 3,000 to 4,000 through new cocos coming into place, and a little bit of NR has started and NR traction is also very good. So, in all these parameters if you see, the growth has been proportionate. So that is why if you could see SA complementing a TD growth and SA and TD together giving us a complementary growth. So, product holding is a very key indicator in retail liability business. So, today, we have close to 1,00,000 or 1,10,000 customers, which means 15,000 customers month-on-month, consuming both the products together. So, it is not only arbitrage game we are playing, we are playing a segmented game, backed by pricing, backed by loyalty based offering which I think, one of the very few banks where you transact and earn loyalty, you get no charges for not maintaining a balance which means we have the touch and feel as a proposition. And third important proposition is return for your investment, that is for the TD. So it is a three-pronged strategy. So, this is sustainable. I think ideally, in a hugely under-market opportunity like India, I think as we keep investing on people and digital more and more, I think this should be a continuous journey at least for next two, three quarters, then I agree with you at some stage you taper down, but that compartment is slightly far away at this point of time. So, this is a very sustainable model. And importantly, TD, the bifurcation which I would like you to harp on is the differentiation between BTD and RTD which used to be skewed towards BTD is now totally favoring RTD which means more and more retail customers or retail threshold of value is contributing to the book, and through their conscious activity are callable to non callable ratios also come down. So, it is a series of efforts from digital to physical to pricing to convenience banking, to segment to chapter wise and classifying customers, we have a VRM model. So all cylinders firing at the same time. So, we are seeing a lag effect and this is sustainable.

Renish Patel: So just to follow up on that. So what is the rate differentiation between BTD and RTD?

Murali Vaidyanathan: See, that is one very unique thing. We do not purchase TD at this point of time. Our RTD and BTD rates are same for last four months. That is one very unique proposition because finally we raise liability to maintain and sustain the cost of funds. So if they start purchasing and negotiating endlessly then we might get into a price war. So for us RTD and BTD there is no arbitrage, the fixed rate is more or less same. And in this if you see, non-callable proportion is 80%. So, we are not playing majorly on the short-term funds up to 90-days, we focus on greater than six months and non-callable has a duration of six months plus and approach. So, that is yielding us substantial results.

Renish Patel: Next question is on the microfinance collection. So, I remember last quarter we had given the statewise collection. So, if you do not mind, can you please share those numbers as well for this quarter?

H K N Raghavan: Good Morning. This is Raghavan. I will just share you the state wise collection. Collection efficiency has seen in terms of Punjab has been slightly lower around about 74% and Tamil Nadu has been roughly around 95% and 90% has been Karnataka, Maharashtra has been 84% and Haryana has seen 98% and 92% have been Gujarat. So rest all have kind of mirrored almost all the September performance except few states where it has gone up by a particular one or two percentage. But otherwise, there is not kind of a major jump I would say. Punjab was slightly bad in terms of September has definitely inched up five percentage points.

Renish Patel: And sir, this collection is as on September, right?

H K N Raghavan: Yes.

Moderator: Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

Nagraj Chandrasekar: I just wanted to add to the question about microfinance. Could you give us a sense of collections in September month and also in the first collection cycle of November what percentage of our customers have not paid us any EMIs sort of three cycles after the morat period ended, and what do you think are likely to be write-offs from this book now that we are two and a half months post the end of the morat period?

H K N Raghavan: The overall percentage I could tell you for the month of October. November is still in progress and it is not in the public domain. And in terms of the total collections for the month of October is roughly around 1.5% more than the September month of collections. And microfinance, it will be too early to kind of say that what credit costs or NPAs would be there because there are customers who are kind of inching up and started paying up now. And I think by end of December, much more clarity will emerge. I would say that the environment is quite positive. Unlike the previous crisis which we had, in the demon time, where there was a lot of pushback from the locals and the politicians and issues which have created a larger extent, this time we do not find that at all. So to that extent, what is happening is that the livelihood has got impacted, and as of now things are coming back to normalcy and people have started paying, there is not even a single center where we are unable to reach or we are not able to reach out to the customers.

So that is actually a positive. So to an extent, I would say that it will take another one or two months to kind of really see how this is going to span, it is too early, the reason why I am saying it is too early is because we have not seen customers who say that boss, I am not going to pay at all. So the willingness to pay is there. So we will have to wait and then see for the next one or two months to come to a final conclusion of what it could be.

Nagraj Chandrasekar: Try to back-calculate could you give us a sense of what percentage would have paid us one EMIs or two EMIs so far?

H K N Raghavan: Moratorium ended in the month of August. And after that, if you look at the billing efficiency, has been about 90% and collection efficiency has been about 93%. So roughly around 7% to 8% of them would have not paid a one EMI and 3% to 4% would have not paid two EMIs.

Nagraj Chandrasekar: Just overall on the provisioning, you mentioned you are at 1% of the book now. I understand compared to a lot of our direct peers, we run lot higher percentages for secured book. But like for like, we are a lot lower on cumulative provisioning for COVID thus far compared to them when we are somewhat similar in terms of our collection run rate and a percentage of book that has not made any payment so far. So are we likely to see a ramp up in provisions in the next two quarters as a sort of catch up as some of these loans, because of the aging start slipping or what is likely to be the outlook there?

P N Vasudevan: See, our mix of assets, as you know, 23% is microfinance, remaining is all secured loans. And we have estimated in terms of what is likely to be the potential account which will slip into NPA and what level of provisions will be required. And generally assuming that microfinance, any NPA will require more or less 100% provision while for other secured loans, you can go for a little bit of more normal provisions… anyway, there is an underlying security which you will realize at some point in time or other. So basis that we feel that 1% is quite adequate. And in our view, I do not think we will be requiring COVID provisions in the third and fourth quarter.

Nagraj Chandrasekar: What sort of LGD assumptions do you use on the non-MFI book overall, just a ballpark figure?

P N Vasudevan: We do not really want to give you LGD product wise and all that because I do not think that is something we give out as of now. But suffice to say that, the realization from underlying security, if it is a (SBL) Small Business Loan, our realization is more or less complete. And in vehicles, anytime that we have to repossess the vehicle and sell it, typically, our realization will be in the range of around 65% to 70%.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bryanston Investments. Please go ahead.

Vijay Karpe: I have just one question. Sir, can you tell us is there any news on the reverse merger front, have you made any representations to RBI, any update?

P N Vasudevan: That is something we will have to take up in course of time because at the end of five year, the promoter is permitted to exit with RBI approval. So as we go nearer that time period, we will start taking it up.

Vijay Karpe: What is the probability of getting a positive outcome?

P N Vasudevan: Once we complete five years, the probability is very high because that is part of the guideline itself. So unless the RBI has any particular concern about us as an entity which I doubt, so the probability is very high. Anything before that we will really not be able to comment upon.

Moderator: Thank you. The next question is from the line of Mayank Bukrediwala from Franklin Templeton. Please go ahead.

Mayank Bukrediwala: My first question was on the microfinance business. For the month of September, October, can you tell me what is the disbursement level versus pre-COVID or on a YoY basis? And the second question is when I look at the Q2 disbursement, these small business loans have seen a far greater normalization compared to the microfinance business. And some of these small business loans are your Micro LAP customers who just sort of doing a more higher ticket microfinance. I am just trying to understand why there is so much of a difference in the business normalization between both these segments. And the last question is, how much of our Q2 disbursements might have some of the government ECLGS Scheme or some top up sort of loan attached to it?

P N Vasudevan: I can tell you that on the government guarantee scheme we have not done much because the rate of 9.25, there is no way we are in a position to offer that kind of rates. So that is not much. The rest of it, I will ask Raghavan to talk about.

H K N Raghavan: As far as the microfinance is concerned in October, we were at Rs.154 crores, and we were at about Rs. 60 crores in the month of September. One more thing in terms of microfinance, I would say that the collections were definitely one very important priority. And second is also that we are moving to a new LOS from the current LOS. So that is also taking some time to get traction amongst the staff for the mobilization. These two has contributed to a kind of tepid disbursement in the month of September and October. Otherwise, there is absolutely no problem as far as the demand is concerned because last six months, we have almost all, 25,000, 30,000 customers per month, which we have kind of gone out, and then they have matured. So the demand is there in the existing lock itself. So, I think the coming months disbursement will be a lot better. And, again, coming back to the Micro LAP or the small business loans, these two are different segments as of now. And also, if you look at it, the repayments from the segment is extremely good. So if you look at the month of September, we had focused completely on the collections because this is the first time we are coming out of the moratorium, we do not know how this collections will go ahead and how things will settle down. So the concern will be definitely more on collections, that once it is under control, then naturally, what happens is that your sales gets a lot of confidence. So from that sense, if you look at it, the retail collections has been extremely good, and we almost closed at 98.7% or in terms of collections who are kind of zero delinquency, that has kind of released a lot of our staff again back to sales in the month of October. So, in the month of October, has been extremely good; we were able to clock pretty good disbursements of round about Rs.275-odd crores, which is almost 80%, 85% of what we used to do pre-COVID level. And we see a lot of demand also in the segment.

Mayank Bukrediwala: This is a very small part business, the housing finance bit. But if I am looking at the disbursement trends been very strong especially in this particular quarter, this is also your affordable segment. So those segment related risks are certainly there. Can you talk a little bit about what is happening here, what is helping us get so aggressive on this space in such an environment?

H K N Raghavan: One is that we are in a space where there is very low penetration. And as we always tell, the disbursements that we do 90%-plus customers are the first time borrowers. So the opportunity is quite large. And I am sure after six months of lull, there would have been kind of economic activities surging back and that would require some working capital I am sure for the existing guys as well as the new guys also, and that is actually causing this kind of a demand. And also if you look at it, our segment is all small traders and small business loans, which are in tier-2, tier-3 segment, and there if you look at it, the impact has not been very high and agriculture is on a boom, and we are seeing a lot of traction even on the small commercial vehicles, the last mile connect activity has been extremely good, thanks to the eCommerce. I think there are lot of activities. One opportunity which is closing I think the other opportunities are getting opened up. So hence these are all things which looks very positive there. And thanks to the kind of distribution that we have and access to we have to these places. I think we will be able to kind of really tap this opportunity.

Mayank Bukrediwala: The yield seem relatively strong. How much of it is due to lower interest reversals due to the asset quality standstill and how much of it is due to higher yields in specific products that we are doing versus what we were doing a year back?

H K N Raghavan: I think yields relatively depends upon the product mix. And if I go segment, I think the micro finance yield is stable, and when you look at the retails loan and business loans, in the last couple of quarters, we have seen traction in agriculture loan as well as small ticket size loan which is slightly… delta is better there. So the yield is also slightly low. And in terms of vehicle finance, if you look at it, our disbursements which used to be almost 60% of heavy vehicles in the last three quarters, that has come down, and then the focus is more on LCV and then SCV where the yields are better. The product mix is also kind of helping us to slightly get the yield better. And of course, the other side, cost of funds is also you can see coming down.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Sir, can you explain zero DPD collection, how should one understand this 98%, 99% number?

Dheeraj Mohan: Zero DPD collections essentially is the collections from our non-delinquent customers. So as you know, there are various buckets; in zero DPD you have 1 to 30, 31 to 60 and 61 to 90 and plus is essentially our customers who are non-delinquent. So this gives you a strong indication of what kind of roll forwards you will see and that is how we monitor these buckets. So that is the significance of the numbers. If the numbers are low, that means your collection effort will have to be substantially higher because you roll forwards to the other buckets, and these are generally in these ranges, as I told earlier. That is a significance of zero DPD collections.

Nidhesh Jain: The customers who are in zero DPD, how the collection efficiency there

Dheeraj Mohan: Yes, because this is the start of the waterfall into NPA. So we as an organization keep looking at this number.

Nidhesh Jain: Secondly, from a OPEX perspective, we have delivered very good operating leverage over the last five, six quarters, and I think on a cost-to-income ratio, we have already breached our earlier guidance of around 60% cost-to-income ratio. So in future do you expect further operating leverage to play out or we are broadly done?

P N Vasudevan: Yes, we have been talking about this leveraging for the last maybe three, four quarters now. When we convert into a bank, we had strongly invested in terms of our branch network. As far as our loan products are concerned, we had already invested most of that in the NBFC system itself. And after we became a bank, we only had to introduce a very few products like our MSE and loan to NBFCs, etc., But otherwise, we have not really been required to invest in creating new verticals for lending side either. So most of the money that we had to invest to kind of set up the bank and make it wide enough to be able to offer products and services to a variety of customers both on liability and assets, it has been done. And now the whole challenge in front of us is how do we leverage. So that is the whole focus going forward. And last two, three, four quarters, that is what we have been talking about. And as you know, there our cost-to-income was at a high of 83% at some point in time and it has been coming down quite steadily. We still really have a long way to go on leverage. Our 375 liability branches are good enough to maybe look at double the kind of liability size that we are having today. If you just compare it with very typically sized banks who also have, let us say 300, 400, 500 branches and look at their deposit base, definitely that gives us a belief that we can also look at similar levels of deposit base with that level of network. And on the asset side, as I said, we still are not offering all the products at all the branches, there are still a lot of products, which are keeping on getting rolled out to the new branches. And the two new leverage products that we referred to today, which is our gold loans and our used car finance, these are leveraging both; one on our existing clients and other is going to be leveraging our existing branch network. So that should again kind of play up in terms of supporting growth with marginal increase in cost. So, I think, we still have a long way to go on the leveraging aspect and we should continue to be seeing good traction on the business side with not an absolutely corresponding increase in the cost.

Nidhesh Jain: So should we expect it to be sub-5% over next two to three years, the cost-to-asset ratio?

P N Vasudevan: Yes.

Nidhesh Jain: On AUM growth guidance, how we see for the FY21? And second on cost of fund. That has also declined quite well, almost 100 basis points reduction in one year. But if I look at current cost of fund and compare it to with our SA rate or TD rate it is broadly similar. So do you expect this cost of funds to further decline or stabilize at these levels?

P N Vasudevan: For the first half, our growth in advances has been around 25%, 26% and we are kind of getting back to a higher level of focus now because of the comfort on the collections. We should see some level of activity on the disbursement side of it also. So maybe we should see similar level of growth for the year. That is what we believe. But on a steady state, if you really look at a little bit medium to long term basis, I think we have always been guiding that this is the model where we should look at between 30% and 40% annual growth. That is the model that we have built over so many years, and I think that model still continues to hold intact. So I think for the medium to long term, we should still look at that level of growth given the kind of diversification that we have on the products and geography and also the kind of unmet demand in this segment that we deal with. In terms of cost of funds, I am going to give it to Murali.

Murali Vaidyanathan: See, cost of funds, again, as we keep building up mass affluent and HNI segment along with entities, it is bound to come down for two reasons; one is at this point of time, we are household rather SA-heavy bank. So as we keep opening up into current account segment and we already got the point of sale, that is merchant acquiring business in, so we should go full throttle from January. So once we start providing digital solutions to those set of customers, our CA proportion to the CASA will go up. Assuming it gets into the industry standards of presently we are at 3% to 4%., if we lands up at 9% to 10% it is bound to have an impact on cost of funds, a). And b) if you see our SA structure up to 1 lakh is 3.5% and greater than 1 lakh is 7%, which technically means every customer contributes to 3.5% whole bucket. So more we acquire on SA, the first 1 lakh is going to bring down the cost of fund. It is going to be CASA gain where CA proportionately going up over a period of time say next two to three quarters to 5% to 6% and we are acquiring a lakh of customers month-on-month to take it towards. So it is a forward-looking game on CASA. And on RTD, if you see our recent price, our RTD for one year is lower than SA; 6.75%. So, we have consciously kept it so that people park, utilize and pay their bills through their savings account. So it becomes a primary account and they hold it and save for longer period in SA which favors the bank as well as for the consumer. The one who wants to see a steady state of return up to two years, the interest rate is 6.75%. So we are playing this game very consciously in terms of parking versus saving versus investing at a deposit cycle ratio. And second part is, as we speak on, our intensity to move up the current account proportionate is what is happening. So, I think it should fall in line over a period of time. And as you are aware, if we have come down 100 basis points over last three to four quarters, next 60, 70 basis points will also make the same cycle because there is an expectation of consumer brand also. So, I think we are on a correct trajectory towards building the franchise and bringing the price down and giving a value addition to the consumer.

Nidhesh Jain: Can you share some color on the customers who are transacting with us on a regular basis or customers who treat as a primary account with Equitas, any number over there would be great?

Murali Vaidyanathan: Yes-yes, of course. So, we have done our own demographic analysis. We have multiple set of customers who come in and transact with us. So, we have age buckets also. So, just to give you a perspective, let us take two variants, which is at the higher end of the bucket; one is ELITE program, second is WINGS, which is a mass affluent segment. So, if you get into the mass affluent segment, close to 30% to 35% of the segment which comes in WINGS segment is between the age group of 35 to 45, which means this is a salaried employee, and this is an employee who would like to have a better proposition and better loyalty benefit and also want to enjoy a better interest rate. So, for a benefit of that side, what we tend to see is this person comes alone as an individual, and then what happens is he grows along with this family. So WINGS person who comes in, he grows his family also, which means there are senior citizens also walks in because of the proposition which is inbuilt in. So, this contributes close to Rs.2,000 crores of my total relationship value. So, WINGS is a very key component. And second is the ELITE component. ELITE component is for the HNI segment. If I have to go back and see, again, there 45% comes from senior citizens, balance 55% from multiple. So here again, the penetration is family-centric. So first is getting a primary account holder who is a salaried, who is a SEMP and then expand into a family. In ELITE, we acquire families, and then we expand transaction into it. So our primary account holding at this point of time is we can stand up and say, primary plus active, it is too early for us to categorize primary alone, is close to 58% of the books, what we have acquired this year is primary plus active. When I say active, this consumer does at least three debits or four debits in a quarter. Okay? Not credit. So which means unless you have a credit, you can do a debit. That is a fundamental difference. So 58% to 60% of the book is primary and active at this point of time.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: My question is very similar to what Nidhesh was asking. So just to continue on the liability side, like you said, these 375 branches are capacitized, at least double the liability base that we have. And also on the high variant account that we acquired like around 10,000 odd customers during the quarter, what would be the broad mix of ELITE and WINGS?

Murali Vaidyanathan: Let me take the first second question. How many customers do you acquire through any ELITE? See, we have two sort of process where we upgrade a customer, called a migration process, which means a customer maintains a certain amount of threshold value in terms of relationship or in terms of CASA we migrate and giving the status and benefits of a program. That is one part of it. Second part of it is what you directly go in open market source and collect the IP of it. So, in a month-on-month sense, we get 2,000 to 2,500 ELITE accounts coming with proper ELITE and we also migrate other than that 2,000 to 2,500, on a quarterly basis It sums up to 7,500. So ELITE has two processes; one is upward migration of qualified customer within the book every quarter, and we do an open market sourcing of 2,500 and second stage is WINGS.

Bhavik Dave: And secondly on this ELITE and WINGS, are the average balances higher than obviously the other accounts that we have? What would be the average SA balance in these ELITE and WINGS accounts?

Murali Vaidyanathan: So average SA balance in WINGS is Rs.90,000 rupees against a threshold requirement of 50,000. And on ELITE, programs is normally decided by relationship value. I cannot go and say. So, average relationship value we can take a ballpark figure of 18 to 19 lakhs per relationship.

Bhavik Dave: And will this give a fillip to our fee income on the liability side which is like today 35%, 36% of our fee in other income which comes from the liability relationships, can this significantly get higher because we are acquiring better quality customers, so, the cross-sell opportunity for us in this segment should be high, is that the way to look at it like the current…?

Murali Vaidyanathan: Your question is partly right, because finally if you get good CASA customer, everything follows that is the fundamental rule which we are not also deviating. Second thing is we are not hardpressing on only LI or GI. We have something called Pool of Insurance for the same. If I meet you accidentally, I will not be going to push you LI or general insurance, health insurance for the sake of meeting target. We sit and discuss. And if we land up in only taking a motor insurance, we consider it as an achievement. So that is a pool of insurance which means we are becoming more and more customer-centric at this point of time than a product-centric, which is making a huge difference as a pool of insurance our investment portfolio is also taking a big traction.

Bhavik Dave: My last question is on the cost side. So on the other OPEX, we have done a good job like Rs.100, 120 crores per quarter. If you could talk about what are the major costs, like going ahead I understand that cost-to-income has long legs to come down, but on the other OPEX side, what are kind of cost that fit in except the rent, how much do we spend on improving our productivity or technology or anything else that we spend on, on this Rs.100 crores per quarter run rate that we have, what will be the broad one or two top lines that is there in the OPEX side?

P N Vasudevan: Our cost is significantly contributed by staff cost. And staff cost is I think 60% or so of our total cost. And in the last six months, there has not been a net increase in the number of staff, that is why you would see the cost are stable in the first two quarters of this year. But that is going to change in the third and fourth quarter, I mean, continuously we have been mentioning earlier also that we will continue to be taking people which are essentially on the sales and collection verticals as we keep taking products to more of the branches. So, we will keep adding sales staff and the collection staff. So, the cost is principally something which gets driven from there. And the rest of the OPEX cost again, I think, rental is the largest component. I will ask Sridhar, CFO, to talk about that.

Sridharan N: This is Sridharan here. Just to supplement on the other OPEX cost, the major cost are rent, electricity, InfoTech, travel, and conveyance. See, roughly, if you look at the percentage, the infotech on the total OPEX it is a 4% and travel and conveyance 3% and the rent and taxes around 8% actually. Moreover, as far as the rent and taxes, because there is some sort of waiver we are getting it but as we go along it will approximately remain at the same level. And the infotech expenses, whether it is COVID or no-COVID, we have been spending on the infotech but travel and conveyance if you look at in Q1 it was almost not there actually the q2 at a normal level actually, the Q2 it has come to a normal level actually. In Q1 it was 1%, which is normally around 3% to 4% level. So it has reached a 3% level. So it will go up to 4% level. Probably the other one is that advertisement publicity which we did not spend much in Q1. So that constitute around 1% on my advertisement publicity which is essential for the liability side. And this is likely to a little bit go up at 1% or 1.25% level actually.

Moderator: Thank you. The next question is from the line of Jay Mundra from B&K Securities. Please go ahead.

Jay Mundra: After moratorium, September, October, November, if 90 days gets passed and if a customer has not paid for 90 days straight, would he slip into NPA on let us say 30th November or would you wait for 90 DPD status as of December end, so how does it work?

P N Vasudevan: NPA in our system is calculated on a daily basis, it is not calculated at the end of the month. So for example, 5th September if a person has a EMI falling due, and let us assume that he starts by being an ex-bucket customer with no overdue as of end of August, and his next EMI falls due on 5th of September, then it is 5th October, 5th November and not 5th December, probably on 3rd December, it will become 90-day because of 31 days in October, etc., So he will probably become an NPA by 3rd December or 4th December or whatever, whenever it becomes 90-days past due from 5th of September. That is how it is calculated.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanted to understand on the provisioning in the credit card side. Now, you did mention that you expect a provisioning likely to be lower in the second half. So, do you expect it to go back to the normal levels, 1%, 1.25% what we have been doing pre-COVID, so any comment on that would be helpful?

P N Vasudevan: Basically, the roll forward into NPA will happen most of them in the third quarter. This is assuming of course that the Supreme Court kind of releases the standstill order. We are not willing to reschedule because of whatever specific client based reasons and the client is not able to or not willing to whatever pay the EMI. Those cases should slip into NPA by December end. There should be very small slippage into additional NPA in the fourth quarter, most of them I believe should happen in the third quarter, which means that our provisions for the third quarter should correspondingly go up. But, as per RBI, we have this COVID provision which is created as general provision, and we are allowed to use that and adjust it against the extra provision required during the third and fourth quarter, so which we should be using it. So what we are stating is that we expect an overall 2% credit cost for the year which is kind of broken into 1% which is our normal steady state provision that we have year-on-year and 1% extra because of COVID stress. That is what we have been talking about in the past. And we believe that is something that is still likely to play out even as of now. And out of that 2%, we have this 1% which is at Rs.170 crores which is buffer created which will be used for adjusting against the extra COVID stress-related provision that will be required in the third and fourth quarter. And our normal slippages of NPAs which will require normal levels of provision should continue. So that is how we see the third and fourth quarter playing out.

Deepak Poddar: So this 2% credit cost include the buffer that you have already created?

P N Vasudevan: That is right.

Moderator: Thank you. The next question is from the line of Madhu Gupta from Quantum Asset Management. Please go ahead.

Madhu Gupta: I have a broad macro question actually. We are in a low interest rate regime. So I just want to know does that help you in terms of getting better demand or does that help you in better profitability because your cost of funds are going to be lower, I mean, low interest rate regime, how does that help you, that is a broad macro level question?

P N Vasudevan: Yes, it should help the margins a bit as our cost of funds and deposits also keep going down slowly, that should help improve the spreads definitely, to whatever extent. As far as the lending side is concerned, yes, as our cost of funds goes down, that will definitely enable us to be more active in certain sectors where we are not lending today, where the current rates are something that is not possible or not viable for us and we are not lending, those sectors will open up as our cost of funds goes down. So that is an opportunity that might keep opening up as we go by. On our current lending model, I think, as we have been mentioning, Raghavan also mentioned, 90% of our borrowers are from the informal economy, where there is no competitive pressure on the rates, I mean, we have hardly any competitors in that space. So, 0.25%, 0.50% rate is not something which is a material dynamic for the increased demand or an increased to disbursement in that sector. In that segment, the only dynamic for improved disbursement and all that is your ability to credit access and then the ability to collect. So that will be the main driver of both demand and disbursement in that sector. But the trending lower rates over a period of time should help us look at newer opportunities which we are currently not looking at.

Madhu Gupta: Could you give some color on what are those segments where we would be looking at?

P N Vasudevan: For example, we are not into the new heavy commercial vehicles segment. And, of course, today, the new heavy commercial vehicle market itself is under stress because of the overall economy. But that is only a matter of time. As the economy picks up, the commercial vehicle always picks up and we have seen it over enough decades now. But even let us say six months from today, the market picks up and the new heavy commercial vehicle market also picks up and there is a good amount of demand. But we are not in that segment today. Because the lending rate in that segment is something which is too low for our comfort today. But if our cost of funds goes down, and it enables us to compete in that market, is that something that we look at? So it is like that. There are maybe a few more cases like that.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. P.N. Vasudevan for closing comments.

P N Vasudevan: So thank you, thank you all for joining the conference call. And we look forward to your continued support as you have been giving us all these years. Bye-bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Equitas Small Finance Bank Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.