

## Transcript

### Conference Call of Arman Financial Services Limited

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#### *Presentation Session*

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**Moderator:** Good evening ladies and gentlemen. I am Jithin, moderator for this conference call today. Welcome to the Arman Financial Services Limited Q1 FY18 earnings conference call hosted by Antique Stock Broking Limited. We have with us today the management from Arman Financial, represented by Mr. Jayendra Patel, MD and Mr. Aalok Patel, ED. 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. Digant Haria from Antique Stock Broking for opening remarks. Please go ahead sir.

**Digant Haria:** Hi everyone. A very good evening to all of you and thank you for taking out time to join this call. Last six months have definitely been challenging for the entire microfinance and the NBFC sector. But, the good part is that, every month is better than the previous month. So, at least the trend is probably being set. So, today we have with us from the Arman management, Mr. Jayendra bhai and Aalok from Arman. So, we will start the call with Jayendra bhai giving their opening comments about how the business scenario is and how Arman has done and then we can have some question and answer session. So, over to you Jayendra bhai.

**Jayendra Patel:** Thank you Mr. Digant. Ladies and gentlemen, thank you for joining this first quarter FY18 concall. We have received a lot of interest this month from the various investment communities on the state of affairs of the company, especially post demonetization, now that over half a year has passed. To the extent we will spend the next hour trying to answer your questions regarding the overall state of affairs of the company and the industry as a whole. The good news is that the worst of demonetization is behind us and we have reported a profit in both our main segments of microfinance and two-wheeler. However, as you have no doubt seen the profits remained muted due to the heavy write offs and provisioning in the microfinance division in the last quarter.

Profit after tax was 94 lakhs in Q1 FY18 compared to a loss of 76 lakhs in Q4 FY17, that is the previous quarter. The profit in the same quarter, the previous year was 2.87 crores. The primary reason for the declined profit from the same quarter previous year is the increased loan loss due to demonetization, write offs and provisioning totaled 2.37 crores compared to 32 lakhs the same quarter, the previous year. We have been very aggressive with our write offs for the demonetization related bad assets.

Our NPA for our microfinance assets which is PAR 90 is less than 1.7% of total micro portfolio. This amounts to about 2.4 crores of NPA assets post write offs. Our recovery efforts does not stop post write offs and we expect some recoveries from written off

assets also. The good news is also that the assets that were created post demonetization so far, has a 99.9% repayment rates. This is a great indicator that the overall client discipline has not been impacted and demonetization was a one-off event that we all have to somehow accept and move on.

The MSME segment has been doing quite well. We now have twelve independent branches with a portfolio of almost 15 crores, which this is not that large, but then with over 1800 customers disbursement in the last quarter equaled about 11 crores. And as I said it is increasing month by month. Two wheeler disbursements stood at 21 crores, up from 16 crores, the same quarter the previous year, a 30% increase. The portfolio now stands at 81 crores, a 42% increase from the same quarter the previous year. Arman's two wheeler NPAs stands at 2.40%, while the new MSME divisions stands at 0%. Let me repeat that, it is 0%. So, MSME is doing good.

To close, ladies and gentlemen, the last half year has been tough on the industry. To be sure however, I assure you that the worst is behind us and we are geared up to continue our growth story. Hiccups like this do occur from time to time. However, it is times like this that our conservative lending practices, reasonable growth target, and diversified portfolio gets vindicated. During the good times, such practices are a thankless job; while in the bad times, it becomes a warm blanket. I believe we are probably one of the few MFIs to return to profitability this quarter. We have moved past demonetization. On that note, I once again thank you for taking interest and let us move on to your questions. Thanking you again.

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#### **Question and Answer Session**

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

Sir, we have got the first question coming from Mr. V Srinath from Bellwether Capital. Please proceed.

**V Srinath:** Congratulations on the good set of numbers sir. Just wanted a few data points. Could you share the PAR 60 and the amount of write offs that have happened in this quarter.

**Aalok Patel:** PAR 60 stands at around I think 5.2% of the overall portfolio. And what was the second part of your question, the repayment rates?

**V Srinath:** No, the writes off or provisions made in this quarter.

**Aalok Patel:** Yeah, so the write offs, consolidated write offs was about 2.37 crores, writes off and provisioning.

**V Srinath:** Okay. And in this PAR 60 of 5.2%, how many of them would have not even paid a single installment? Would that be large number or a small number?

**Aalok Patel:** None, none. So, all those ones that have not paid a single installment have all been written off. So, all of these are people who have at least paid one installment or more than one installment. If somebody has not paid even a single installment, they would be PAR 180 days plus. We don't have any PAR 180, except for minor few clients. All of those have been written off. Some of the PAR 90 also has been written off. So, whatever we have is, we are collecting. Basically, whatever portfolio is left, slowly, slowly we are collecting money from them.

**V Srinath:** And is it fair to say that in most of these cases, these collections will happen by extending the loan period. So, over the course of say, November to January, this November to January, we will actually find out our collection efficiency on.....?

**Aalok Patel:** No, we don't do those kinds of eye wash practices, where you make a new disbursement and from that new disbursement, you recover your old overdues. We never believed in that stuff and neither do we want to start doing that right now. In fact even during our good days, we never made any top off loans.

**V Srinath:** No, not that, I am saying as in because these loans probably will get restructured in paying installments after the due period, so we would actually know our efficiency towards the later part of this year? I am not saying the refinance per se.

**Aalok Patel:** No, no, I guess if your question is regarding re-schedulement, obviously there are lots of loans in that PAR, which the tenure has closed right now. So, on our books the tenure should have closed. But, we are still recovering money from that. But, re-schedulement is controlled very heavily by the RBI. So, we haven't per se rescheduled any loan. It is just the payments are coming in late. Unfortunately, RBI doesn't even allow us to collect penal interest, so we are just simply collecting installments, overdue installments of closed tenures or tenure past overdue. So, I think if I understood your question, that is my answer.

**V Srinath:** Yeah, I got it. I just wanted to understand your approach to the Utter Pradesh market, where there seems to be a sizable increase in the number of branches. What has kind of caught your eye that we have been looking at this market? And is this predominantly coming for the MFI business or is this growth also for the MSME business? So, I just wanted to understand our Utter Pradesh outlook?

**Aalok Patel:** I will answer the second part of your question. That it is just simply microfinance. We haven't expanded other products yet. The MSME is only limited to Gujarat and Madhya Pradesh at the moment. So, UP it is quite weird for us, because lot of the larger companies who are located in Utter Pradesh, they are facing huge issues, but we never faced that kind of issue in UP. In fact the worst it got for us was the repayment rate of, I think, 96.4%. We had a very good experience in UP. In fact it was much better than Gujarat or even Maharashtra. It was equivalent to MP for us. And with a lot of the larger companies that are somewhat in trouble or whatever you want to call it, the disbursements had slowed down significantly in UP. So, this opened up an opportunity for us to fund the vacuum that was created by the large people slowing down or stopping disbursements. So, UP has been performing extremely well for us. I think the PAR left over in UP is only something like Rs.7 lakhs or Rs.8 lakhs. So, we are quite bullish in the UP market now. And of course, we are acting very, very

conservatively just because there are lots of people who did face issues. So, we are double checking through credit bureau before we make loans. We are only making loans in non-cash loans. So, 100% of our disbursements occur through the bank NEFT. So, we are very, very careful in UP. But, for some reason, I don't know, our experience has been quite favorable in UP. And this is also probably because we have quite a good management team there as well, people who have worked extensively fifteen to twenty years in UP. So yeah, I guess it is the opposite experience that most people had.

**V Srinath:** Got it, got it. Kind of a technical question, in the presentation you have written that the SME portfolio is split between Arman and Namra. I just wanted to find out what is the kind of thought process behind it, based on the ticket size or how does this work? Because, actually I was just looking at the standalone numbers and thinking that I would be able to evaluate the MSME business as is. So, how does this work and where are these loans getting accounted for?

**Aalok Patel:** Yeah, so the answer is actually a lot simpler than that. All of our MSME loans are originated from Arman level only. But, I think if you have been following the company for a while, you will know that sometimes we have intercompany transactions to manage our cash flows properly. So, if there is more cash sitting in Arman or more cash sitting in Namra, sometimes we do intercompany transactions where we sell a portion of Arman's asset to Namra or vice versa.

**V Srinath:** Okay, but predominantly this will be based out of Arman's book, the MSME business?

**Aalok Patel:** Yeah. All are managed through Arman.

**V Srinath:** Okay. A suggestion is, going forward if you could actually add separate MSME from two wheelers, from a presentation point of view, I think of course this time you have given it in the notes, but even in the tabulated format, going forward it would be nice if you could separate the two businesses.

**Aalok Patel:** Yeah, you are right. Earlier before this, the MSME portfolio was too small, that we just kind of combined it. But, now it is getting slightly larger. So sure, that is a great suggestion. We will make sure that we split it from future quarters.

**V Srinath:** Thank you. I will get back in the queue for further questions.

**Aalok Patel:** Thank you.

**Moderator:** Thank you sir. Sir, we have got the next question coming from Mr. Anand Bhabnani from Sameeksha Capital. Please proceed sir.

**Anand Bhabnani:** Good afternoon sir. Thank you for the opportunity for questions. Sir, my first question is about disbursement. So, you have discussed that disbursement, in the last quarter presentation you mentioned that the disbursement was 17.5 for microfinance. Can you help us with the numbers for microfinance disbursement in May and June?

**Aalok Patel:** So, microfinance disbursement, I have it right here. In April it was 17.5. 21.22 in May. 28.71 in June. And if you want July also, it is about 32 ½ crores.

**Anand Bhabnani:** Okay. And sir, similar numbers for SME and vehicle finance?

**Aalok Patel:** Yeah. So, just one second. SME is about 2.82 crores in April. 3.59 crores in May. 4.18 crores in June. And I don't have the numbers in front of me, but in July it was about 4.2 crores.

**Anand Bhabnani:** Okay. And sir, if I were to look at the interest cost, so this quarter our interest costs have again come down as compared to last quarter. So, shall I expect again that they will bounce back in Q2 FY18, because of our six monthly interest payment on NCD?

**Aalok Patel:** No, no, those have been accrued for this quarter only.

**Anand Bhabnani:** Okay. So, this quarter it is an accrual.

**Aalok Patel:** Yeah, so already it has been accrued. I don't know, the interest sometimes fluctuates, so it is kind of complicated based on how the portfolio goes up and down during the entire quarter. Overall our cost of borrowing has remained sort of steady. So, last quarter might be a one off thing, because of.....

**Anand Bhabnani:** This time it will be accrual there is no, yeah, fine sir.

**Aalok Patel:** (Inaudible).

**Anand Bhabnani:** Yeah. And sir, talking about improvement in the net interest margin, in the press release you have mentioned net interest margin we can expect to improve further. Sir, any ballpark number that you internally think that we can reach these numbers by Q2 or Q3 or Q4?

**Aalok Patel:** Our NIMs have always averaged around 18% during the good days, 18 plus. So, I would like it to make it somewhere around 18½ to maybe even higher than that. But, let us see. We just went through a lot during demonetization. The last quarter we had some NPA assets, which accrued interest income and we had to reverse and stuff and that is why it was out of whack in the last quarter. But, this quarter the normalcy has returned. And hopefully by next quarter we can push it up to 18 plus.

**Anand Bhabnani:** Okay. And sir, last question, Jayendra sir at the beginning of the call mentioned that 2.4 crores of NPA is left post write offs and provisions.

**Aalok Patel:** That is for micro finance.

**Anand Bhabnani:** Yeah, that is for micro. And sir, just wanted to understand what has been our total cumulative write offs and provisions over the last three quarters, Q3 of FY17, Q4 and Q1 for the MFI?

**Aalok Patel:** So, about I think if you total everything it will be about 5.1 crores. I'll have to double check for the exact number, but that should be the ball park figure.

**Anand Bhabnani:** Okay, this will be write offs as well as provisions?

**Aalok Patel:** Yeah, but most of it is write offs. So, I think the write offs will be about 4.5. We are the kind of people that we just wanted to get it off our books, whether for better or for worse, we don't like keeping stuff that we are confident that we are not going to collect or are going to have difficulties in collecting on the books. We just like it to take it off the books right away.

**Anand Bhabnani:** Okay. Sir, 5.1 of write offs and 2.4 crores of NPA is yet to be, it is NPA which is under processing from a total of 7.5?

**Aalok Patel:** Hopefully we don't have much more write offs to go. I think with that kind of NPA, let us see in the coming quarters. But, definitely the worst of the write offs are behind us. And if you actually look at our books, about 62% to 65% of the portfolio is all new assets which were created post demonetization. So, we are slowly running out of the old assets and creating new assets, creating a fresh stock so to speak, so most of our assets are short term and one-year old. So, they cycle (not clear) pretty quickly. So, hopefully by the next quarter or the quarter after that, we will be back in full swing.

**Anand Bhabnani:** Great sir. Sir, I will come back in the queue for additional questions. Thank you.

**Moderator:** Thank you sir. Sir, we have got the next question coming from Mr. Ashish Maurya from Cholamandalam. Please proceed sir. Mr. Ashish, please proceed with your question sir.

**Pravin:** Hello, it is Pravin here. So, sir my question was on the branch expansion plans for the MFI. So, going forward what sort of, at what pace we could expect the branch expansion?

**Aalok Patel:** Most of the branches we have already opened. So we tried to open most of our branches during Q1. There might be a few incidental branch openings still remaining, two or three or maybe four branches. But, I don't think you will see any large expansion for at least the rest of this fiscal year.

**Pravin:** Okay. Sir, just to understand, what generally is the cost of setting up a branch, let's say, let's split it into say, CAPEX and then the recurring cost of that branch?

**Aalok Patel:** So, the CAPEX is about Rs.1,50,000 to Rs.2 lakhs, not that much at all. And the branches are usually rented. In rural areas the average rent is somewhere around Rs.7000 or maybe Rs.10000 at the most. And recurring, the highest recurring expense is the payroll. So, the payroll can range to somewhere between Rs.60000 to as high as Rs.1,10,000 a month. And then you have the other operating expenses such as travel, electric, day to day functioning. So, you can add another Rs.20000 to 30000 to that number.

**Pravin:** Okay. So, overall somewhere between Rs.1 lakh to Rs.1.5 lakh is the recurring expense for a branch.

**Jayendra Patel:** Yeah. But, they of course depend on which area the branch belongs to, in a semi urban or an urban or a rural area. Depending on the size of the branch and depending on the staff that you want to recruit for that, so largely it depends on that. But, whatever Aalok said is approximate and you can take that as the benchmark here.

**Pravin:** Okay. And generally, how long does it take to break even a branch sir?

**Aalok Patel:** More than time, it takes about 600 clients to break even.

**Pravin:** Let us say, what level of disbursement or an AUM does a branch break even?

**Aalok Patel:** Typically we break even at about 600 to max of 800 clients. So, when the branch reaches 600 to 800 clients, then usually that takes between anywhere from four to eight months. Sometimes 12 months in worst cases.

**Pravin:** Okay. Sir, and then coming to the SME business, so are we still on with the same target of 80 crores by financial year 2018?

**Aalok Patel:** Yeah, we are still trying to target that.

**Jayendra Patel:** We are confident that we can reach there, yes. But since it's a new business, it's hard to predict accurately.

**Pravin:** Okay. And talking about this asset quality of MFI business, is it like whatever rise in NPA which we have seen, is it coming only and only because of the demonetization effect? And now that everything is now recognized, right?

**Jayendra Patel:** Sir, let me tell you this, I was checking this morning only and out of 65000 members that we have, I am talking about post demonetization, I have only two accounts which are overdue in UP, only two accounts. So, that speaks about the buoyancy that speaks for the business (not clear) into swing again. And that speaks that everything is hanky dory post demonetization.

**Aalok Patel:** Overall the assets have performed quite well post demonetization. So, earlier there was an issue that this might become a new normal and that is not the case. It turned out not to be a systemic risk. We are quite confident on the microfinance model. It is just that during demonetization, things went haywire. People were facing genuine issues. There were liquidity issues. And then once normalcy returned with lot of different clients, the discipline was lost. Some clients, frankly speaking, took advantage of this situation. They took advantage of the politics that were being played on the ground. They took advantage of the group dynamics where if one village had a significant percentage of them in default, they took comfort in groups-think. So, there were lots of things that went wrong during the demonetization. But, the number one blame I would put in is the lack of discipline. So, discipline is the

key thing in microfinance. And we lost that for about three or four months. And recovering from that proved to be quite challenging. So, that was the overall (not clear). But, we are back in the groove. We are back to normal. And I think that the worse is behind us.

**Pravin:** Okay. And sir, the one question I had is on the branches. So, let us say, now you have about twelve branches of SME loans and do we have any sort of overlapping that or is it only exclusive branch for just SMEs or MFIs sourcing the SME loans or something as such?

**Aalok Patel:** No, we create separate branches for all the divisions. And there is a good reason for that, because every division has its own sort of culture that you need. So cross pollination doesn't happen. We have tried it a couple of times. It is just that the kind of people you need running two wheeler is quite different than the kind of people you need running micro and also the kind of people you need running MSME. So, as I told you that the CAPEX for opening a new branch is not very high. And overall cost to open a separate branch is not very high to begin with, because again these are all rural branches. So, the main expenses, employee expense is variable to begin with. So, we keep the branches separate for all three divisions.

**Pravin:** Okay. Sir, my last question is on the yield on the two wheeler portfolio. So, what would be the blended yield and incremental yield?

**Aalok Patel:** About 20% to 24% is what we charge. The average is around 23%.

**Pravin:** Okay sir, thank you sir. Thank you so much.

**Moderator:** Thank you sir. Sir, we have got the next question coming from Mr. Savi Jain from 2Point2Capital. Please proceed sir.

**Savi Jain:** Hello sir. One is, I wanted to know the composition of your liabilities, how much of it is from banks and NBFC etc.? And also what is your cost of fund, latest cost of fund?

**Aalok Patel:** Yeah, I don't have the exact ratio, but it is right now it is approximately 60-40, 60% being banks and about 40% being other sources like NBFCs and we have a certain portion which is NCDs coming from foreign sources. Our cost of funds right now is approximately 14 % all in, that includes interest, processing fees, loss due to cash collateral, stamp fees and all of that stuff. So, that is the overall rate. If you want to just look at interest, it is probably somewhere around 12.5%.

**Savi Jain:** Yeah, so when do you see this coming down? I have seen that your credit rating is also not moved I think for the last one year. So, do you see an upgrade coming in and your costs going down in the near future?

**Aalok Patel:** No, we definitely would have gotten upgraded if demonetization didn't occur. But, this is the time where a lot of our peers in the industry are getting downgraded. So, I don't think that we can expect any kind of an upgrade this year, just because not for our own performance or anything, but due to the industry itself. But, definitely that is something that we always strive for. And I think over the past three

years, we have been upgraded twice. So, let us see. We never say no and we will put in all our efforts.

**Savi Jain:** But, are you seeing some reluctance from the banks to give you more lines, so is it something that you are seeing?

**Aalok Patel:** So, I have heard people in the industry saying that they are facing issues, but we personally have not faced any issues, touch wood, luckily. Because, our expectation was that maybe post all of this, there might be a few financial institutions or bankers that might be reluctant to lend to this industry, but we haven't faced any issues. But, the cost of fund is high, yes, I agree, it is a continuous process to reduce the cost of fund. And we were quite successful. I think if you look at our past records, we were reducing it by 20-30 basis points on an average every quarter. But, this has stopped since the third quarter of FY16. Post demonetization, the availability of funds is more important than the overall rate itself.

**Savi Jain:** Okay. Second question I had was on the SME products. So, you mentioned that you have separate branches for that. So, what is the tenure of this product exactly?

**Aalok Patel:** It is flexible. Depending upon the clients, it is twelve to twenty four months. Most of them are twenty four months. We also can do eighteen months for them, if they want. There is no reason we can't do fourteen months also. But, most of them, about 80% of them are twenty four months.

**Savi Jain:** Sir, what is this used for, is it for working capital or buying some kind of a machine or some equipment for their business?

**Aalok Patel:** It varies, it could be for buying something or it could be for working capital also. Most of them have existing businesses and they need it for inventories or things of that sort. So, it would be working capital. But, on the rural side, people also use it to buy buffalos and use it in businesses such as scrap business for buying inventory. So, it would vary.

**Savi Jain:** Are these existing clients in your microfinance business who have moved through two-three cycles of loans and you are comfortable lending 1 lakh kind of loan to them? Or, are these entirely new clients?

**Aalok Patel:** No, most of these are new clients. I will tell you, when we first started or were piloting this MSME segment, we were under the impression that yes, we will be able to cross sell it to our existing microfinance clients who have been with us for four-five years and have matured enough to take, let's say, Rs.1 lakh loan versus Rs.40000 loan. But, in practice that didn't turn out to be quite true, because just because the microfinance customer has been with you for four-five years and has paid your Rs.20000, Rs.30000, Rs.40000 loan, that didn't necessarily make it true that you can give them Rs.1 lakh individual loan. So we were better off giving money to a whole new set of clients. People who didn't want to go for the group based loans or borrow from multiple MFIs to meet their needs, these are sort of more mature clients we are targeting. They are happy with taking one loan. They like the monthly installments versus fixed installments on a bi-weekly basis. So, these are slightly more mature customers. And our underwriting is also stricter for them.

**Savi Jain:** But, how do you see the pressure, because lot of these businesses are very varied? There are lots of NBFCs who focus on this segment and they have identified a set of businesses that they will fund, they understand those kind of businesses and the cash flows associated with those businesses. But, are you targeting any MSME or is there some certain set that you define where your understanding of the business is there already?

**Aalok Patel:** Yeah. We use a lot of local knowledge in our hiring. Our structure is; it is not like microfinance. We have a branch manager and a risk manager placed at the branch. So, the risk manager has a lot of local knowledge. He is also quite experienced and expensive, if you want to call it that. And we do a very thorough cash flow analysis. Anything over Rs.50000 needs an income proof as well. And based on a very thorough cash flow analysis, life style analysis, credit check and all those things, we make a decision that okay, this guy can afford an installment of let's say Rs.2500. And so the actual process is that we figure out is net positive cash flow and then we give him a percentage of that as the installment.

**Savi Jain:** But, essentially this is unsecured loan, right?

**Aalok Patel:** Essentially yeah, it is unsecured. We do take PDC, so we can always file a 138 under Negotiable Instruments Act. So, that gives us a little bit of comfort. But, nobody is going to give you mortgage for a Rs.1 lakh loan. That just doesn't happen. Neither are they going to deposit their original documents. I know what you are talking about. There are companies that are lending Rs.5 lakhs, Rs.10 lakhs which are doing lap loans. But, that is not exactly who I am targeting. I am targeting the vacuum between Rs.50000 to Rs.1,50,000.

**Savi Jain:** So, what has been the experience on the asset quality for this?

**Aalok Patel:** The asset quality is wonderful. We have essentially 99.99% recovery. I have one default in Indore and one in Godhra. But, it is a little early to tell, because in our experience the defaults don't usually start until like twelve months of vintage. So, right now (not clear), but we will see after twelve months. Overall we have priced it to expect about 3% loan loss.

**Savi Jain:** Okay, credit loss every year.

**Aalok Patel:** Yeah, that is what we priced it, expecting about 3%, anything less than that is.....

**Savi Jain:** So, the yields are higher than microfinance.

**Aalok Patel:** Higher, yes. Higher than microfinance. It is about 30%.

**Savi Jain:** Okay. Thanks a lot.

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

**Anand Bhabnani:** Thank you for another opportunity again. Sir, just wanted to understand, this monsoon there was severe rains in certain parts of Gujarat. So, since we have significant microfinance portfolio in Gujarat, do you see any impact of these in Q2 results?

**Aalok Patel:** There was minimal impact in Banaskantha district. But, these kinds of things happen every year. So, for us it is not that big of a deal. There are always certain isolated issues every year in certain areas. And so our people are trained to deal with it. Our management is trained to deal with it. So, as I said, there were some issues in Banaskantha. But, that has returned to normal now. So, there is not going to be any significant impact of those rains in the coming quarters.

**Anand Bhabnani:** Okay. And sir, you mentioned our MFI book, 60% to 65% is new loans, the old loans have run off. So, just wanted to understand, are these loans our original twelve months products or are these the longer tenure, fifteen months products, if you can help us understand the tenure?

**Aalok Patel:** No, we stopped doing the twelve months tenure loans I think about a year and a half ago. These are all fourteen months tenure loans. And originally we switched to fourteen months tenure was because we wanted to keep their installments low. So, the market was increasing their loan sizes and we wanted to be competitive. But, in the same time we didn't want to increase their installments that much also. So, what we did was, we increased the tenure by two months just to sort of balance things.

**Anand Bhabnani:** Okay. And sir, last question was about our funds. So, you mentioned that it is 60-40 banks versus other sources. Sir, what would be the split of funds vis-à-vis the duration? So, one year, one to three years and three to five years, any split on those lines if you can share?

**Aalok Patel:** I don't have the exact split. But, I will tell you that the majority of our funding is available in CC limit. So, that is almost perpetual. It gets renewed every year, because it is perpetual. And most of the term loans are between two and three years. So, we don't accept anything less than two years and most banks don't provide anything over three years. So, it is between two and three years for the term loans.

**Anand Bhabnani:** Okay. Sir, in terms of cost of funds, since you are 14. at the moment, what do you think would be our cost of fund by the end of this year, assuming that this rate cut that happens which hopefully we will be able to take benefit when we roll over, so any particular internal target that you have?

**Aalok Patel:** My target was actually, long term target was to reduce it to even 12%. But, I think it is reasonable that we can probably have it somewhere around 14% by the end of the year. So, we will try to reduce it by about 40 basis points. But, as I said, right now availability of funds is rather more important than negotiating rates. But, let us see, overall our interest rate is about 12% to 12½%. The rest of the 2% comes from other expenses the bank add on mostly in the form of cash collaterals and in the form of their processing fees. So, we counted, obviously RBI allows us to charge 10% over our cost of borrowing. And they allow it not just on interest rates, but other costs, effective costs that will be higher than our interest cost. And we are very competitive as

far as our cost to the customer for a company our size. Our interest rates are actually quite lower than the market, the interest that we charge to our customers. So, there is an immediate need, but of course cutting cost of funding is a continuous process. So, we always try our best to negotiate as much as we can.

**Anand Bhabnani:** Okay sir. And sir, last question, in your press release you mentioned that UP branch expansion, one of the reasons is to capitalize on the gap left by the other MFIs who are curtailing their operations or are stagnant at the moment. So, sir just wanted a sense, how do you see this split of the book at the end of the year? How much would UP contribute vis-à-vis other States?

**Aalok Patel:** So, our overall projection when we started was about 50% in Gujarat, 20% in MP and about a split 15%-15% between Maharashtra and UP. But, I think Maharashtra will be closer to about 10% and UP might be, I don't know, between 15% to 20%, somewhere around that range.

**Anand Bhabnani:** Okay, thank you sir. I will come back if there are any questions.

**Aalok Patel:** Sure, thanks.

**Moderator:** Thank you sir. Sir, the next question comes from Mr. Nishant Runjta from Spark Capital. Please proceed.

**Nishant Runjta:** Thank you for the opportunity sir. Sir, just wanted to check with you, how are client additions tracking this quarter? What percentage of your disbursements would have been from fresh client additions vis-à-vis through the repeat customer? And in that context, how are the average ticket sizes in the MFI loans tracking? And what is your outlook on growth via ticket size for this year sir?

**Aalok Patel:** So, we have no planned ticket size growth besides the natural ticket size growth that comes from change of cycles. Our overall average ticket size is I think little over 23000 right now. Our first cycle ranges from, between 18000 to 20000 now. And then the second cycle goes up from there, 20000 to 25000, 25000 to 30000. And then we have two years products as well, which we do 40000 and 45000. But, we don't like to concentrate too much on the two years products. And it is only if the client demands a higher loan tenure or a higher loan or a higher loan tenure and we have risk of losing a good customer, in that case we will make an educated evaluation. Now, as far as your first question regarding how many of our clients are new, it is a very high percentage. So, almost like 72% of the now loans that we have made are new clients, because there are certain areas which we had closed down, which are existing clients during post demonetization that we are going to open up. There was a one year product. There were clients which were overdue, which we were considering whether we should lend money to or not. So, there were all kinds of issues with the old clients. So, lot of our concentration was on new client acquisition since demonetization.

**Nishant Runjta:** Sure. Sir, last question from my end. Sir, what is your target vision for FY18 in terms of the MFI portfolio and the MSME two wheeler portfolio? And what is your target three years out, where do you see this company moving in terms of the AUM side?

**Aalok Patel:** So, our target for the AUM on the microfinance was somewhere between about 270 crores this year, about 270 AUM. That equates to about disbursement of about 400 crores. That is somewhere where we will probably land up in micro. On the two wheeler side, we are expecting an AUM of about 90, let us say about 90 crores to 95 crores. Earlier it was lower at about 85, but we have revised it. And MSME might be lower, earlier we had given a growth target of about 80. I think we might get closer to 70 in AUMs, so whatever that adds up to be. And our earlier target was to reach about 1000 crores of disbursement by FY19. We might be a little late by few quarters with that target. But, definitely by FY20 you can expect an AUM of about 800 crores. So, by the first couple of quarters of FY21, we can definitely cross 1000 crores.

**Nishant Runjta:** Sure sir. Thank you so much. Thank you sir.

**Moderator:** Thank you sir. Sir, we have got the next question coming from Mr. Bhavik Mehta from Antique Stock Broking. Please proceed sir.

**Bhavik Mehta:** Sir, right now as you said, on the two wheeler front you have revised your AUM target. So, could you give us some idea on what would be the reason for it and how do you see the two wheeler market going forward?

**Aalok Patel:** I think we had made the targets based on our overall year over year growth rate, which was somewhere around 15% to 20% historically. But now, it seems that the two wheeler segment is performing much better. And that is because of couple of reasons. One is that we have cut our interest rates by about 100 basis points to 200 basis points for our customers, because of competition. We have also revamped and changed few of our dealer relationship target matrix. And we have done some significant recruitment as far as experienced sales people go. So, all that considering and considering the fact that I want to ensure that the company remains diversified, the portfolio remains diversified, as in not too much emphasis is put on microfinance, we decided to revise the target in the two wheeler side. Let us hope that we achieve it. This season will be quite important, this coming Diwali season. And everybody is hoping for good sales this Diwali season, because the last two have not gone too well. So, with the good monsoon and everything we hope that the coming season is pretty good.

**Bhavik Mehta:** Okay. On this sir, you said right now that you have revised your dealership sourcing strategy. So, could you just highlight what revision have you done with the dealership?

**Aalok Patel:** It is mostly related to their quarterly targets. We have made it that they make more money, if they give us more cases. And we also provide inventory funding as you know. So, that inventory funding, what we typically like to do is that we give them interest free inventory funding as long as they exhaust it within a said amount of time frame.

**Jayendra Patel:** Plus, I would also say that they, when you are sitting at the dealership, you have accepted sort of a pull model. A pull model, meaning you are pulling customers towards you. And when you are sitting at any dealership, the dealer has a lot of say in it, whether which client goes to whom. And that is where I think we have scored a little higher point, because of my relationship with dealers, because of my

local existence with the dealers and because of my relationship over the years with the dealers. We don't have to go to (not clear) to take permission for certain cases wherein dealers feel that money should be given to this particular client. So, we being a local player, especially in Ahmadabad have probably helped us a lot in procuring the numbers that we do. And always flexibility with the service is our motto as far as the two wheeler financing is concerned. So, all these things put together I think has given us good numbers as far as two wheelers are concerned from year over year, since last so many years.

**Bhavik Mehta:** Okay, thank you sir. That is all from my side.

**Moderator:** Thank you sir. Sir, we have got the next question coming from Mr. Parag Jariwala from White Oak Capital. Please proceed.

**Parag Jariwala:** Sir, you have just given your AUM and growth targets. What is our tier-I currently and the kind of growth you are planning, I think you will be, by when do you think you will require a capital infusion?

**Aalok Patel:** So, our tier-I capital is about 50 crores right now. And we did have certain funds in tier-I fund raising goals by the end of Q4 of FY17. But, obviously because of demonetization, the portfolio declined significantly. So, those plans got put on hold. But, we just very recently raised about 15 crores of sub debt. So, that is sufficient for us to meet our targets for this year. But, we are always looking for strategic investor or something. It is just that at what cost and at what price and at what dilution levels, those are always questions that we need to ask. But yes, we are not opposed to a strategic investor or some sort coming in at a good valuation. But, the valuation as you know has been under pressure a little bit since demonetization. So, with this 15 crores of sub debt we are in no rush. We will wait until we get the valuation that we are looking for and we will go from there.

**Parag Jariwala:** Okay, thank you so much sir.

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

**Digant Haria:** Thank you for your participation to the members and a special thank you to the management for taking their time out and making us understand the business. Thank you.

**Jayendra Patel:** Thank you.

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

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