



ARMAN FINANCIAL SERVICES LTD.

**“Arman Financial Services Limited
Q4 FY2018 Earnings Conference Call”**

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ARMAN FINANCIAL SERVICES LTD.



ANTIQUE



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Moderator: Ladies and gentlemen, good day and welcome to the Arman Financial Services Limited Q4 FY2018 Earnings Conference Call hosted by Antique Stock Broking Limited. We have with us today the management from Arman Financial, represented by Mr. Jayendra Bhai Patel – Managing Director and Mr. Aalok Patel – Executive Director. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Digant Haria from Antique Stock Broking Limited. Thank you and over to you Sir!

Digant Haria: Very good morning to all of you. Thank you for taking out this time and joining the call. I understand it is the craziest time of this results season, so thank you and thanks to the management also. We have with us Aalok Patel, Jayendra Bhai and Amit from Arman Financial. Without wasting any further time, I will hand it over to Jayendra Bhai who will take us through the business highlights and then will go to Aalok who will throw some opening remarks on the new businesses and then we can open for Q&A. Over to Jayendra Bhai!

Jayendra B. Patel: Thanks Digant. Ladies and gentlemen, good morning and hello to everyone. Thank you for joining us for the year-end conference call for the fiscal 2018. The previous year has been quite a year in many aspects and glad it is over, but it is hard to complain when we have achieved so much growth. The first half of the year was prospecting in many aspects because of demonetization, recovery rate was at all time low, growth was low and operating costs were very high.

However, we are happy to announce that we have not only recovered, but doing better than ever. Our assets and the management that is AUM grew from about 190 Crores to almost 425 Crores, I repeat from 190 Crores to 425 Crores AUM that is about 120% growth year-over-year. We would like to stress that this growth is not a departure from our usual conservative nature, which we have been seeing for decades. All our conservative policies remain intact, low including ticket size, rural lending, state incentives, commitment to product and geographical diversification EPC, ETC.

We have spent the better part of the year to develop our infrastructure and branch network to be in a position to expand rapidly. As we steady, post demonetization there was a competition vacuum in certain areas, which we were well positioned to capture and take the advantage of the situation. Another very exciting news that I have to share is that we have very recently received an equity infusion from SAP partner. I guess SAP does not need an introduction, but for the sake of introducing SAP is one of the most reputed private equity investment managers in India.

They have invested 50 Crores in the form of CCD, which along with accrued interest will convert into ordinary equity share after 18 months for a net investment of about 57 Crores after 18 months. The fresh Tier 1 capital will be used to decrease risk and increase our RBI mandated CAR ratio, which



will allow us to leverage more and increase our loan book. For those callers, who have been following Arman for a longtime, you would have been aware that we had been searching for the right partner for the last couple of quarters besides equity, SAP has a good and rather a great track record, which is helping small ideas become giant company and we can certainly use their help to grow in the safest and the most sustainable if possible.

We could not be happier with our new partnership and we hope to have a long fruitful relationship with them. I also take for granted that as we go along with the question and answer session, if anybody has any questions regarding SAP partners, we will be happy to elaborate any news that we might have or any information that we might have.

Going further comparing the fourth quarter versus the same quarter the previous year is Q-over-Q results. The income from operations increased 110% from 12 Crores to 26 Crores, about two-third of that income was from microfinance book while 20% was from two-wheeler operations and the balance from the new MSME segment. We achieved a record disbursement during the last quarter with a consolidated disbursement of 156 Crores. Just for the sake of comparison that one-quarter disbursement is the equivalent of almost two-thirds of the disbursement we achieved all of last fiscal.

So, it is for you to compare that last quarter was a very productive quarter. As you may be aware in the fourth quarter of the previous year, we had declared a loss of 74 lakhs. We have recovered well with the 2.43 Crores profit you should expect the profitability to continue to increase in the future. Talking about the yearend numbers, as I mentioned previously, consolidated AUM increased from 191.64 Crores to 423.34 Crores. Again, I will repeat that the consolidated AUM from 191 Crores to 423 Crores, which is a 121% growth on a year-on-year basis.

About two-thirds of the AUM is in the microfinance portfolio, 21% in two-wheeler and the balance 12% in the new MSME book. Consolidated income from operations increased about 50% for the previous year from 54 Crores to 80 Crores. Consolidated income from operations from 54 Crores to 80 Crores despite the heavy burden of the demonetization on the profit for the first two quarters, we surpassed our target and expectations and declared a PAT of 7.3 Crores compared to 6.3 Crores the previous is 16% increase.

Disbursement totaled 530 Crores a 115% increase from the previous year. Disbursement breakup is as follows. Disbursement happened in the following fashion; microfinance was 400 Crores, two-wheeler was 484 Crores and MSME touched almost about 46 Crores.

In the following year, we again have a lofty goals the exact details I cannot share, but we plan to cross at least disbursement of 850 Crores. We are planning to have a disbursement of 850 Crores next year, 650 Crores in AUM.



We plan to slowly foray into Rajasthan for our microfinance operations and perhaps one other state as well. In the MSME segment, we plan to expand the division and start LAP product, LAP meaning thereof loan against property.

As always, ladies and gentlemen, I am thankful to the whole Arman team, which worked extremely hard this past year towards recovery and growth and made such a difference to the lives of our customers. So far fiscal 2018–2019 looks bright and we hope for a great year going forward. Thank you all for your time and your support. Thank you again, and I would like to open the call questions that you might have. Thank you very much Digant.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Jatin K from GS Investment. Please go ahead.

Jatin K: Sir, congrats on a good set of numbers. Sir, as you were talking in the initial remarks that our conservatism has remained, but we have still grown quite well, so I just wanted to understand what has changes in the ground are seeing or what is causing such high growth despite you are saying that we are maintaining our conservatism?

Jayendra B. Patel: Well you know the story really goes back Jatin, pre-demonetization actually. I cannot take the full credit for it because we are setting up an infrastructure as early as mid 2016 for the disbursement, putting the staff range we expanded into Maharashtra and UP, we are expanding our MP branch network in everyday, but everything got paused because of demonetization for about four, five months and then because of that our portfolio declined almost from about one-third, so after that we were well positioned to expand, so I cannot take the full credit for it about the 123% growth, but overall if you combine both years you can say we grew about 40%, 50%, which is on a compounded basis, which is what we normally do since the last seven, eight years.

Jatin K: I was looking at the press release posted on the exchange, so our gross NPA has grown a little bit, but we have not increased any provisions and we have everything almost as a net NPA, so why we are not taking any provisions?

Jayendra B. Patel: Are you talking about the microfinance book, the number of book?

Jatin K: Yes Sir, microfinance also and two-wheeler also we have taken some provisions, but as in provision coverage so it is not very high in that segment also?

Jayendra B. Patel: So, I think as far as provisioning goes we follow whatever guidelines are given to us by RBI, so that said in the microfinance book, we have to take the higher of 1% of standard assets or 50% of 90 days overdue and 100% of 180 days overdue, so whichever of those is higher, so in our case the 1% standard asset provisioning is enough, so we do not take any additional provisioning in that. So I think we have almost 2.26 Crores consolidated standard asset if I have not mistaken and as far as the



Arman book is concerned those are all assets over 90 days, so as you know we have to shift from about 180 days and slowly we have brought it down to 90 days that is basically the increase, which you are seeing in the gross NPA, but overall that is not much of a deterioration in quality in the two-wheeler side and we are also very aggressive with our write-offs so as you can see our write offs are much higher than our provisioning and that has historically been the case for us. If we feel that the asset is e-recoverable we write it off when we rather take tax benefit from that then to keep it on the books. In addition to that we do a pretty good job with recovery in the micro side we have a whole another team now, which is something that most MFI do not do. We have a whole recovery team, which actually does only recoveries, we are still chasing after the demonetization assets, the bad debts and overdues. Recovery wise we are recovering still about 20 lakhs to 25 lakhs on a month-to-month basis of course it slows down as time goes forward just may be three, four months ago.

Aalok Patel: Our efforts are very serious in that direction because we feel that if we have taken money then we need to give it, if it is two years or one and a half years, then to we teach our clients money has to come back and then that is the reason why we have a recovery staff especially in those branches where we have a little more serious problems because of demonetization especially in all the MFIs that they have been hit very badly in the milk belt area, which is Aravalli branches like in Gujarat they call it milk belt, like Himmatnagar, Modasar, and those areas.

Jayendra B. Patel: We are also recovering on the write off accounts as well.

Jatin K: That is great to know Sir, so demonetization is around one-and-a-half years past, so we are still recovering that money?

Jayendra B. Patel: Absolutely about 20 lakhs, last month it was 20 lakhs.

Aalok Patel: Average at this juncture last two, three months we are about 30, 40 lakhs a month.

Jatin K: That is great to know Sir and on loan book you are saying next year would be 650 Crores AUM?

Jayendra B. Patel: Yes.

Jatin K: Would you be able to provide the breakup between MFI and two-wheeler and MSME?

Jayendra B. Patel: Yes, I can give a range. So what we provided was likely a conservative number. So the range in microfinance will be about 400 Crores to 450 Crores, that would be AUMs, just simply on the current MSME as it lies will be about 100 Crores and if we managed to successfully launching the LAP product you can add another 25 Crores to 30 Crores to that hypothetically it is still in the works and in the two-wheeler book we are planning somewhere between 90 Crores and 100 Crores.

Jatin K: Great to know Sir. Thank you.



- Moderator:** Thank you. The next question is from the line of Parag Jeriwala from White Oak Capital. Please go ahead.
- Parag Jeriwala:** Thank you. If you look at last quarter we added around 60 odd Crores of AUM and when you talk about 650 Crores it is like 60 Crores a quarter and I understand that fourth quarter is generally higher than the rest of the quarter, but your 650 Crores guidance actually does not add anything meaningful especially when you are talking about LAP, what I am saying is last quarter we have added 60 Crores in the overall AUM, if my Arithmetic is right?
- Jayendra B. Patel:** Yes, you are correct.
- Parag Jeriwala:** When I am going from 420 to 650 I am only adding 60 Crores a quarter?
- Jayendra B. Patel:** I understand, so I guess what you are trying to say is that what is the big deal?
- Parag Jeriwala:** No, I am not saying the big deal. We are not actually growing when we are talking about LAP and everything, I am just more curious?
- Jayendra B. Patel:** So, the LAP product is something that just a wish being right now. If we launch that certainly the numbers will increase, so what we have provided is sort of the conservative number to you at this moment. It could be more certainly not less. The thing, which you are getting at is you are saying that if you have done 60 Crores in the last quarter, then why I have set my target so low is that what you are trying to say?
- Parag Jeriwala:** That is the question.
- Jayendra B. Patel:** See, last year was sort of a supernatural year for us and we were sort of catching up from the demonetization effects, as I mentioned to you earlier, but the comfort level lie somewhere around 50% may be at the most 60% year-on-year growth. That is what we feel is safe for us to do now anything more than that of course we saw in the finance business, I can open 100 branches tomorrow and I can cross a 1000 Crores in six to eight months, despite money is not the problem, it is a hiccup we find is the biggest thing, we have a pretty strong risk framework and we do not really like to grow very quickly. I think if you have been following with us I know that goes against whatever I saying is contradicting with what we did last year, but as I said last year was a little bit of an exceptional year. You know, this is what we are comfortable doing and we think of growing faster, growing at a 100% every year is fraught with risk. That is the company you hear about in the news, but once you never hear about are the ones that with such policy, so I do not know what else to tell you.
- Parag Jeriwala:** No, that is a very fair explanation. Lastly can you just throw some light on UP market especially on the microfinance side, I mean it is a difficult market now almost our branches are equivalent to what



we have in our home state, and a couple of players are also every aggressive on those side, so what is the outcome?

Jayendra B. Patel: The players were aggressive quite a bit, but it seems that people have taken a little bit of break from UP after what happened in demonetization. Our portfolio, I should not say surprisingly, but for lack of a better word surprisingly we have been performing exceptionally well, even as the things like attendance and things like that are quite nice in UP. We are not facing much of an issue at all and we are trying to keep everything very diversified so if you look at our spread in UP we have crossed a very wide nets normally we would have 50, 60 kilometers between each branch in UP and on average you will be like 120 or even 150 kilometers, so we are trying to stay away from all of these political risks and stuff. Other measures we have taken is we kept the loan sizes quite small, so the average loan size is only about 18000 in UP, other measures is that we are only 100% of our disbursements are cashless as far as law and order and everything is concerned, so whatever measures we can take to reduce the risk we are taking them, but I think the reason we are doing well in UP is because there is a little bit of a stereotype with UP that it is a bad area to operate and that is not bit my experience. I think you have the right team and if you approach UP in the right way it is a fantastic place to do business especially in microfinance because there is a lot of poverty, our target customers are performing better in UP than in Gujarat itself, so this is I can tell you PAR 90 is 27 lakhs, and the portfolio is approximately 25% about 90 Crores.

Parag Jeriwala: Thank you. This is really helpful.

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

Shreenath V: Good morning guys. Just wanted a few maintenance questions could you give a split of the 5.1 Crores other expense for the quarter?

Jayendra B. Patel: 5.1 Crores split of the other expenses?

Shreenath V: Yes. Just to get an understanding of the write off in provision versus the business expenses?

Jayendra B. Patel: Lot of the sales incentives bonuses to the dealers goes towards the year-end so that was about 65 lakhs and there is a lot of legal fees associated with the SAP deal, so there was legal and professional fees somewhere around 64 lakhs total about 50 was associated with the SAP deal, so we had lot of the travelling expenses those were a little bit about 63 lakhs of that was in the travelling side let us see what else.

Shreenath V: Provision and write offs would be?



- Jayendra B. Patel:** So that is actually the major one, so we had about 60 lakhs in Namra and 27 lakhs of write offs in Arman so that 87 lakhs and about 81 lakhs was an increase in the provision for standard assets just basically increased because of the asset size increase.
- Shreenath V:** Could you share the PAR 60 for the MFI book and also post-demonetization what would be collection efficiency, the loans that were dispersed post-demonetization?
- Jayendra B. Patel:** So, the collection efficiency for microfinance of loans post-demonetization is about 99.42%, so that was hovering around 99.7%, we have seen a slight reduction in the repayment rates, but I think that is more of seasonal thing than anything else.
- Shreenath V:** PAR 60 would not too relevant now given that everything is flown into NPA?
- Jayendra B. Patel:** About 4.5 Crores is PAR, 1.43% that is what it is.
- Shreenath V:** I just wanted to understand after the normalization some time later next year or the year after how would you see operating cost to total assets for the MFI and MSME business, how would this kind of settle and then second question on that is the MSME piece if we were to get in LAP, how would that affect our cost to total assets as you see it?
- Jayendra B. Patel:** We will start with the micro side. Our model is a little bit different than others because we are concentrating on a biweekly collection and low ticket size, so that being said, I do not think that we can match some of the other MFIs who are using monthly products and high ticket size sort of urban places, but I would hope I can get the operating costs down to around 8% odd, so that is what 7.5% to 8% is probably our goal in the next year. Our tenure we are going to increase from an average of 14 months to about 18 months that is just because we have to increase loan sizes and we want to keep the installment sizes low overall for the customer and for the LAP side, I have not worked out all the nuances right now on the LAP side. Overall the operating cost for the MSME is quite high at the moment. It is about 10% to 11%, but I think as the portfolio increases that should come down, but overall it is expensive to run MSME and that is why the pricing is also a little bit on the higher end as well.
- Shreenath V:** Give me slightly more granular view as in yields would about 30% then credit cost opex can you just break that for the MSME please?
- Jayendra B. Patel:** For the MSME piece we are charging somewhere around 30% to the customer out of which about the interest cost will be about 12%, last year opex was about 12% so that is 24% and we are expecting sort of a loan loss of about 3%, we had priced it to make about a 3% margin, but luckily the loan loss was not as much as we expected, but let us see. One cycle has not been over yet.



- Shreenath V:** How would LAP kind of again not to get into specific numbers because we may not have worked it out, but how do you think LAP will sit on top of this to get cost to what kind of range, opex cost?
- Jayendra B. Patel:** The operating cost I can hope as the branch sizes grow I can get it down to about at this point about 9% or so is my target and just to understand that the model is based is based on cash collections. In micro, when I go and go into collect money from a center, which might have 6, 8, 12, 20 people in that center. There I have to go individually collect from each member, so that is a little bit of a big affair, but that is because a) I can pass it on to the customers and b) the discipline remains for the customer side, but I can reasonably pass it on and when I bring in this LAP, I can get a little bit more efficiency out of my staff also because they will be selling both the unsecured and the secured and the LAP, but LAP I cannot hope to get even close to the amount of margin, which I am getting from the unsecured portion, but will have to be priced significantly lower.
- Shreenath V:** Basically LAP will help us cover for fixed cost and the margins will basically come from the low ticket MSMEs?
- Jayendra B. Patel:** Yes, that is correct.
- Shreenath V:** Got it and what is the customer profile and ticket size you are looking at from the LAP business?
- Jayendra B. Patel:** Ticket size we are looking at 2 lakh to 5 lakh right now and these will be basically, so we are not covering agriculture properties neither are we covering the registered mortgage deeds in the city municipalities. We are trying to cover those middle properties what they call the garbled properties in Gujarat or the panchayat properties, so that is what we are trying to cover at this point.
- Shreenath V:** Customer profile would be?
- Jayendra B. Patel:** These would be slightly one step above the MSME customers or customers who are even our MSMEs at the moment mostly concentrating on the rural side, people with well-established businesses who are just unbanked at the moment. There are on a sort of a cash business, but the cash flow support has to be there. On time business owners pretty much.
- Shreenath V:** Thank you. I will come back to the queue for further questions.
- Moderator:** Thank you. The next question is from the line of Pranoy Kurian from Ambit Investments. Please go ahead.
- Pranoy Kurian:** Thanks for taking my question. There was a note at the bottom of the results saying that there is an additional RBI provision, could you just explain that for us?
- Jayendra B. Patel:** There was a note where?



Pranoy Kurian: Standard asset?

Jayendra B. Patel: That is the standard asset. Basically that is an RBI mandated provisioning, which we have to make on standard assets and I think it is 1% for microfinance and it is 0.40% for our asset finance and MSME, so on Arman it is 0.4% and in Namra, which is the NBFC MFI it is 1%.

Pranoy Kurian: The word additional was used, so is there any other provisioning that was embedded in the numbers?

Jayendra B. Patel: No not over and above what is required.

Pranoy Kurian: If you could just give the split for the year between write offs and provisioning?

Jayendra B. Patel: Write offs and provisioning, in the consolidated level right.

Pranoy Kurian: Yes?

Jayendra B. Patel: Yes, I can pull that up for you. Bad debts written off Rs.5.23 Crores, contingent provisioning on standard asset is Rs.2.26 Crores and the balance is the provisioning for NPAs. Overall combining all the provisioning and the bad debts, it comes out to be I think Rs.7.6 Crores or Rs.7.65 Crores.

Pranoy Kurian: I think on the earlier question you had answered this, but you had given a breakup I think of 60 lakhs, 27 lakhs and 81 lakhs was the total credit cost for the quarter right something like Rs.1.7 Crores?

Jayendra B. Patel: I told you these figures for the year.

Pranoy Kurian: Yes, earlier I think earlier on the call?

Jayendra B. Patel: For the fourth quarter just the write offs the Namra was about 60 lakhs and Arman was about 27 lakhs.

Pranoy Kurian: Fine and standard provisioning was 81 lakhs?

Jayendra B. Patel: Yes 81 lakhs.

Pranoy Kurian: Fine and any reason for a slight uptick in NPAs for the two-wheeler business?

Jayendra B. Patel: It is because we had to switch from 120-day recognition to a 90-day recognition in the last quarter.

Pranoy Kurian: That impact came only in Q4?

Jayendra B. Patel: Yes.



Pranoy Kurian: Do you have the amount of recoveries for FY2018?

Jayendra B. Patel: Amount of recoveries for FY2018?

Pranoy Kurian: Yes?

Jayendra B. Patel: I am sure I have it somewhere. I do not have it in memory. Let me see if I can find it.

Pranoy Kurian: Even a ballpark number would be fine?

Jayendra B. Patel: Are you talking about bad debts recovery?

Pranoy Kurian: Yes?

Jayendra B. Patel: I can pull that for you. For Namra it was 82 lakhs and on Arman was 6.95 lakhs.

Pranoy Kurian: Fine and was this number very different from FY2017?

Jayendra B. Patel: I just looked at the wrong numbers. It was 33 lakh for Arman.

Pranoy Kurian: 33 lakhs and 82 for Namra. Yes, and were these numbers significantly different from FY2017?

Jayendra B. Patel: Yes.

Pranoy Kurian: Yes, is it a big jump?

Jayendra B. Patel: I mean we had let us be honest we had a lot more written off last year than we did this year than we did for last year, so obviously that will be a jump, but as I keep saying last year was really not comparable to most other years because of demonetization impact.

Pranoy Kurian: I think you had given the PAR 60 and 90, so I think yours was 1.4% for PAR 60 just confirming?

Jayendra B. Patel: In micro it is 1.4% to 1.5% I believe.

Pranoy Kurian: And PAR 90?

Jayendra B. Patel: PAR 90 will be about 1.12%.

Pranoy Kurian: Fine. Thanks so much.

Moderator: Thank you. We move to the next question from the line of Agastya Dave from CAO Capital. Please go ahead.



- Agastya Dave:** Thank you very much for the opportunity Sir. Sir I think in two or three questions like you mentioned and gave you breakup for MSME in terms of how much is the yield or what is the interest cost versus the opex? Can you also give similar breakup for your two-wheeler business and MFI business?
- Jayendra B. Patel:** Yes, so MFI right now the margin is about between 24% and 24.5% plus we charge another 1%, what other breakup, so you want the yields for two-wheeler it is about 21% that is all.
- Agastya Dave:** Sir I guess the interest cost would be same and opex will be different and loan losses will?
- Jayendra B. Patel:** Opex is different. So in microfinance we currently have an opex of almost about 8.5% and in the two-wheeler side I believe it is close to about between 6% and 6.5%.
- Agastya Dave:** The loan losses that you have priced Sir?
- Jayendra B. Patel:** Loan losses last year were a little different. Before last year we used to have a loan loss of about 60 to 75 basis points for microfinance and about 150 to 200 basis points for two-wheeler.
- Agastya Dave:** Sir then the next question if I look at the other expenses for the year and compare it to the previous year, the previous year was Rs.10.72 Crores whereas the breakup that I have is bad debts written off Rs.3.2 Crores and Rs.5 Crores provision to NPA contingent against standard assets for 17 lakhs, can you give each break for this 17.23 Crores this year?
- Jayendra B. Patel:** The breakup for other expenses for Rs.17.23 Crores.
- Agastya Dave:** Yes, for this year?
- Jayendra B. Patel:** The large chunk about Rs.7.6 Crores will be related to the bad debts and the provisioning.
- Agastya Dave:** That is the total amount Rs.760 Crores okay?
- Jayendra B. Patel:** Yes, and so you are left with the balance Rs.10 Crores and that is basically all kinds of expenses. Legal and professional was about Rs.2.15 Crores.
- Agastya Dave:** That I will take from the schedule when the balance sheet comes and also final question historically when I look at your loan losses there were never really 1%, and there was something extraordinary happened, so like the last few years have been aberrations, so going forward with the change in everything in MSME you are pricing in 3% loan losses, so are we like going to see 3% loan losses or are we going to stick to around 1%? What is your sense because you really have a good it is very surprising that you are getting recoveries after such a long time of the demonetization and not many people have done that? If I take a five-year view on the company what kind of loan losses through your cycle will be seen? What is your sense?



Jayendra B. Patel: That is an excellent question actually. What can we expect as far as loan losses going forward? I think that is the summary. See in the microfinance side, I think the industry has changed enough where you cannot expect 50 basis points loan loss anymore. That is my assessment. It is anybody's guess what they will wind up with, but by guess is on a year-to-year basis, you have to at least expect 1% going forward at least in the long run and in the two-wheeler side again the industry has changed to a certain extent lot of competition, down payments are going little lower so that increases overall risk and if you have to repossess that increases our overall losses, so I am putting that at about 2% in the long run and in the MSME side, I did account for 3%, but I think I was being a little too pessimistic. I can safely put that down to about 2% now, but let one cycle go before you hold me to it. It is a five-year cycle. We have not been done with the entire cycle yet. This is the same. Just by experience when we started microfinance in 2010, we faced the same situation. There were no bad debts at all for a year because originally when you first start your very, very conservative and you try to cherry pick and go after the low hanging fruits. Once you are operations get going for a good year to two years your volumes start increasing then things go a little topsy-turvy, so let us see how it works out to be.

Agastya Dave: If I can squeeze in one more question. The opex numbers that you have given how does operating you are a small company as of now. You are growing very fast 50% to 60% is what you have said, so how does operating leverage play out at the branch level? How long does it take for a new branch to break even in a new state and what kind of business, do you need to do in a particular branch for the breakeven to happen and do we see these opex numbers and what is the realistic trajectory for to come down with the increase in price? That is it Sir. Thank you very much.

Jayendra B. Patel: I have always said when once we reach about 600 to 800 clients in microfinance that is the point of breakeven for branch related expenses. For MSME it is a little early to tell the average, but right now it is about 450 customers is when I break even for the MSME side and two-wheeler it is a kind of a different process altogether, so it is a dealer based and for me to run a successful let us say a profitable dealership I have to do at least about eight to 10 cases in a month, so that tough estimates come out to be. Most of the two-wheeler is a very variable cost, so besides just the base **(audio cut) 45.39** it is variable cost, so it just depends on how many cases you do.

Agastya Dave: Thank you very much. I will go back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Ekvira Securities. Please go ahead.

Rohan Mandora: Good morning Sir. Thanks for the opportunity. Sir I would like to understand in the MFI space with some of these small finance banks coming into Gujarat and also banks like Bandhan entering into Gujarat, are you see any fair pricing pressure and how do you see the opportunity there in MFI?

Jayendra B. Patel: In the MFI side, there is not a lot of pricing pressure. In fact, I have noticed that the SSBs have increased running rate higher than me. They are running rates. Some of them are running rates closer



to 20%, so MFI is not a very price sensitive to begin with. Now up to a certain level, so if somebody is charging 6% to 7% lower than me the customer is going managing comparing it, but it is more about timely delivery of funds that matter to the customer.

Rohan Mandora: Sir on the NIM side if I look at your press note from 1Q FY2018 till 4Q FY2018 the NIMs have come down from around 17.3% to 13.2%, so going ahead for FY2019 what is your expectation on the NIM?

Jayendra B. Patel: On the NIM side, as you leverage more the NIMs go down and at this point we are almost completely leveraged both in terms of Tier 1 and Tier 2, so that is what you are seeing there overall. In the last quarter unfortunately I guess we had a lot of different bank disbursements that came in the last month and there is a lot of front load costs that we have passed right away, so we cannot accrue them across the life of the loan, the other borrowing cost caused the NIMs to go down slightly as well.

Rohan Mandora: What would have been our impact on this that you have indicated on the NIM, if you have to adjust for that?

Jayendra B. Patel: If I were to adjust for the other borrowing cost what would be the impact on NIM?

Rohan Mandora: Yes.

Jayendra B. Patel: I would not know the calculation on the top of my head, but I can certainly get back to you on that.

Rohan Mandora: Sir incrementally what is our cost for borrowing right now?

Jayendra B. Patel: It depends on how **(audio cut) 48.30** we get so on the lower end it is about like the lowest cost we have just borrowed from SBI in March at about 0.5%. On the higher that is about 12.5%, so it is just depends.

Rohan Mandora: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Manav Vijay from Essel Mutual Fund. Please go ahead.

Manav Vijay: Thank you for the opportunity. Just wanted to ask you that we ended the year with roughly 107 branches on the microfinance side? How many you intend to open in FY2019?

Jayendra B. Patel: About 35 to 40.

Manav Vijay: Mostly these should come in UP, Maharashtra and Rajasthan?



- Jayendra B. Patel:** No, Rajasthan we are basically opening it as sub operation section of MP, so we have about four to five branches that we are just planning to open in Rajasthan and then slowly expanding from there. That will be on the MP and Rajasthan border. On the UP side, we have a plan to open about three to four in Northern UP and about 10 to 15 branches in Eastern UP and expense will be divided between MP and Maharashtra.
- Manav Vijay:** Sir if I see that during this year the total of branches that you have in Madhya Pradesh remained almost stable around 24 to 25 while the number of branches in UP increased dramatically almost by one-third, so if you can provide some clarity as to why MP I would say it is staying where it is staying?
- Jayendra B. Patel:** Well there was a lot of opportunities in UP to expand. I think that we had a pretty good team and there was a lot of vacuum that was created by lot of the larger MFI players after demonetization, so we just thought it would be kind of easier to go after low hanging fruits, so MP is more concentrated at the moment than UP as far as other MFIs go and Maharashtra had a lot of its own issues post demonetization, so we stayed a little bit conservative.
- Manav Vijay:** Sir if you could also provide some plans of your Rajasthan as you mentioned roughly four to five branches, but the expansion would be slow and steady like the way you did UP or it could be faster?
- Jayendra B. Patel:** In Rajasthan it will definitely be slower.
- Manav Vijay:** Compared to UP?
- Jayendra B. Patel:** Yes, compared to UP.
- Manav Vijay:** Sir that is all from my side. Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Pranav Singh an individual investor. Please go ahead.
- Pranav Singh:** Congratulations for the large equity raise. After the equity infusion I was wondering if there are any chances of creating an increase or decline in interest cost whether you like to you diversify your funding sources?
- Jayendra B. Patel:** For sure I think as the equity base increases, the lenders will get more comfortable and that should translate into a decrease in the overall lending cost. We are also approaching the credit rating agency to see if we can get an upgrade based on the recent infusion as well, so that should result in a decrease in the interest cost slightly as well, so I think next year will be definitely you will see a decline in the overall cost of borrowing.



- Pranav Singh:** Sir this time you have written off some left over demonetization loans I was wondering if there are any more loans still left that we may need to write off over the next quarter?
- Jayendra B. Patel:** In demonetization?
- Pranav Singh:** Yes, if any demonetization loans, old loans, which are not retained and if there any of them left, which we may need write off next quarter I was wondering?
- Jayendra B. Patel:** Very little. There are some stragglers left, but at this point it is basically the ones that are paying back slowly rather than giving like 100 to 200 bucks here and there, so those are still on the books. I think if I had to venture a guess that would be somewhere around 70 lakhs to 80 lakhs of those loans, which are still left on the books, but I do not expect too much of a write off to come out of that and if it does even if 50% comes it will not be a large chunk of overall book.
- Pranav Singh:** Sure I will do that.
- Moderator:** Thank you. The next question is from the line of Shreenath V from Bellwether Capital. Please go ahead.
- Shreenath V:** Aalok, can you just share the state wise AUMs for the quarter?
- Aalok J. Patel:** State wise AUMs.
- Shreenath V:** You have given I think Uttar Pradesh out already so that we can a view on this diversification move that you have made?
- Aalok J. Patel:** Yes. I can pull that out for you. I think roughly if I had to tell you.
- Sheenah V:** Yes, just a rough percentage?
- Aalok J. Patel:** 44% is in Gujarat now, 21% is in UP, 13% is in Maharashtra, 21% is in MP and 2% is in Uttarakhand, but Uttarakhand we considerate it a part of our UP organization. We have two branches there 2%, so I guess UP operations will be 23% instead of 21%.
- Shreenath V:** Got it. Just wanted to find out what kind of ROAs are we targeting for the MFI business going forward do you have anything in mind also because MSME is not settled, I am not too sure if you have anything in mind, but if you could share your views on the potential ROEs for these businesses going forward?
- Jayendra B. Patel:** On a fully leverage basis I would say around 3% is my conservative estimate for the microfinance side. Next year I am estimating between 4% and 4.5% for the MSME book and about 2.5% give or take for two-wheeler.



- Shreenath V:** Cool. Thank you.
- Moderator:** Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** Thank you Sir for the followup. Sir your deal for which you which you have raised the equity, I was just wondering how will we see the consequences of that flowing into the P&L and balance sheet, so you said the core business is Rs.7 Crores the total dealers 50, but at the time of conversion it becomes 52, so this Rs.7 Crores will flow into the P&L or will it be provided directly in the balance sheet?
- Jayendra B. Patel:** How will it affect the balance sheet and P&L the CCDs is that what you are saying?
- Agastya Dave:** Yes. Will you provide directly in the balance sheet?
- Jayendra B. Patel:** Not that accounting expert at this moment, but so it is Rs.50 Crores CCDs the interest at 10%, so if you count 18 months that will be about Rs.7.5 Crores worth of interest out of which about 7.5% of that Rs.7.5 Crores will go away in the form of taxes, TDS or whatever. There is another 3% that we have to pay that is tax related. Out of that Rs.7.5 Crores about 10.5% will go away in tax liabilities, some of which will convert into more shares at **(audio cut) 57.47** is the share and that will just lie as a payable in the balance sheet and a liability and then when once it converts at the end of 18 months it will go into fair capital and reserve and surpluses.
- Agastya Dave:** Perfect. Thank you very much Sir. Thank you.
- Jayendra B. Patel:** Basically what will happen is it will bypass the P&L and go straight into the reserves and surplus, the interest portion.
- Agastya Dave:** I understood it slightly differently. I thought if it is payable then it flows into the P&L, goes to the balance sheet as payable and then at the time conversions the payable is extinguished?
- Jayendra B. Patel:** Right so it is a non-cash item. If you are going to pass through the P&L bypass was the wrong word, I am sorry. It will pass through the P&L, sit on the balance sheet and then do a transverse share capital.
- Agastya Dave:** Cash consequence is only the tax portion, which is miniscule 10% of the interest? Anything else passes through the P&L, but remains on the balance sheet as payable and then at the time of conversion it is extinguished?
- Jayendra B. Patel:** Correct. That is correct.
- Agastya Dave:** Thank you very much Sir. Good luck.
- Moderator:** Thank you. Ladies and gentlemen this was the last question for today. I now hand the conference over to Mr. Bhavik Mehta of Antique Stock Broking for closing comments. Over to you Sir!



Bhavik Mehta: Thank you all for joining the conference and thanks to the management for patiently giving us all the answers to our queries. Thank you and have a good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Antique Stock Broking Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.