"CSL Finance Limited Q2 FY19 Earnings Conference Call"

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MODERATOR: MR. DIGANT HARIA – ANTIQUE STOCKBROKING

Moderator: Good day, ladies and gentlemen. And a very warm welcome to the CSL Finance Limited Q2 FY19 Earnings Conference Call, hosted by Antique Stock Broking.

We have us today the management from CSL Finance, represented by Mr. Rohit Gupta – MD, Mr. Rajeev Mehra – COO (SME Business); and Mr. Gaurav Sud – Advisor.

As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after 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. Thank you and over to you, sir.

Digant Haria: Good evening to all of you. Thanks for taking out this time for the con-call. It has been a pretty eventful quarter, so I think I will quickly hand it over to Rohit, who can give his opening remarks, maybe talk a little bit on the quarterly performance and what the path ahead for CSL lies. So, over to you, Rohit.

Rohit Gupta: Thanks, Digant. Good evening to you all. A very warm welcome to the CSL Finance investor call. I understand that the most pertinent question in the present scenario will be more on the liquidity situation of our company, its affect on our growth and our exposure to the wholesale segment. We have also received few queries from one of our investors, and we will try to answer them in this call. And we have included them in our opening remarks. So our opening remarks will be a little detailed, so I assume these queries.

First of all, I would like to take you through the operating numbers and the major developments of this quarter. We had a reasonably good quarter with our income of Rs. 14.62 crores for the quarter and profit after tax of Rs. 5.89 crores for the quarter. We have continued to scale our business with an overall 53% growth in our AUM year-on-year and as of 30th September our AUM stands at Rs. 313 crores.

We have opened five new branches in this quarter, four in Gujarat and one in Rajasthan. We already have a presence in Rajasthan. And we have expanded our retail presence to Gujarat also. Now, we have 19 operational branches and have hired 39 more employees in this last quarter, taking our total strength to 135.

In this quarter we have also moved to our new corporate office at World Trade Tower in Noida, so it will help us to increase our efficiency. Earlier we were spread over two offices. And we are also in the process of implementing the **Finnone 3.04** lending management system and we hope that it will fully live by the middle of next month.

During last one year there has been expansion in terms of branches and manpower. Now, we are more or less done with the majority of recruitment and our focus going ahead will be on improving the operating metrics of our branches.

Given the current challenges in the market, I would like to explain on the liquidity, growth and our exposure in the wholesale segment, I think which all of you people will be interested in. So, coming first to the liquidity: as on 30th September our cash and cash equivalents, including the undrawn limits were Rs. 21.31 crores, which was roughly around 6.38% of our balance sheet and 16.43% of our total borrowing. As of date this figure is roughly same, Rs. 21.17 crores. In the next two quarter we have interest and repayment liability of approximately Rs. 14 crores on our borrowings. On the other side we are expecting a gross income of Rs. 25 crores to Rs. 30 crores in the next two quarters. So, after deducting operating expenses of Rs. 6 crores we will be having more than interest and repayment liability from our income side only. On top of it we are expecting repayments between Rs. 70 crores to Rs. 90 crores during next two quarter, which will help us to fund the growth in the retail and small developer segment, in a worst-case scenario of not raising any debt in the next two quarters, if we perceive that.

So, our capital adequacy ratio is very strong. We have a 63.47% and we also have decided to maintain at least 5% to 7% AUM in cash and cash equivalents, including undrawn bank limits, if the current situation persists in the next two quarters. During the quarter we have raised a fresh loan of Rs. 20 crores from AU Small Finance Bank. While there were more sanctions of loans where the disbursement was supposed to happen in September, but the lenders put them on hold due to the environment around NBFCs. We are quite confident, these sanctions are revised in the coming few months and we will be disbursed the loans which were sanctioned but not disbursed to us. So we are also in discussion with few large NBFCs, some PSU banks for further fund raising. So that I think is on the liquidity side.

And then coming towards exposure in wholesale segment. As we have explained in earlier presentation, we have divided our wholesale booking in three categories, large one is loan to group housing projects, wholesale small is for redevelopment of existing houses which we call them builders floors, and the third one is the wholesale less which are loans given to educational institutions and other mid-sized corporates.

As of 30th September, the exposure to wholesale large was Rs. 152 crores, wholesale small Rs. 75 crores and wholesale Lap is Rs.52 crores. And our SME book is around Rs.34 crores as on 30th September. In the wholesale large we have taken exposure in those group housing project's where last mile financing is required and with good consumer demand. For instance, we refrain from areas like Faridabad, Dwarka Expressway, Yamuna Expressway, Kundli Manesar highway sector, which in our perception was more speculative then with the end consumer demand. And we are focused primarily on small and mid-sized developers who are working on one or two projects in their portfolio. And if you see, all our accounts will meet primarily three, four parameters which we are very focused on. The unit price of the project in all the cases which we have funded is in the range of Rs. 35 lakhs to Rs. 60 lakhs which we see in affordable side in the NCR market. The construction in few of the cases is complete and the families are living or in few of the projects we are nearing completion and on the verge of being handed over. And we have atleast 2 times cover through receivables and unsold inventory.

So, in this segment we have sanctioned loans in 12 months where we get complete charge on inventory receivables. And all these receivables are coming through an escrow mechanism where we have complete control.

During last 44 days, after this scenario has been playing, we have been reviewing all the accounts in this segment and have found most of the accounts in satisfactory mode. Collection from this segment has been strong in October also. From the wholesale we received Rs. 28 crores and in the current month till date where we had 4 to 5 days of Diwali also, we have seen Rs. 16 crores of collection.

So, our exposure in initial or intermediate level of construction is only in two accounts. These projects fall under the category of affordable schemes of Haryana government. Typically, the unit price is around Rs. 20 lakhs to Rs. 22 lakhs. And one of the projects was fully sold on the day of launch. And the second one will be launched, but in both of the cases the location is excellent and a lot of habitation is already happening. And these projects are being launched at 50% of the prevailing group housing project prices which are near to them.

So, if you see, the first account which we sanctioned I think 11 months back, we have collected Rs. 12.9 crores out of the sanctioned Rs. 28 crores. So, the efficiency of collection can be gauged from this account. So, these projects are in high density areas of Gurgaon and we see no issue of collection as and when demand is raised by the developer on due date.

In the present market if the complete squeeze on home loan happens then yes, there can be some challenges for us. But still we are not working with less than 2x, 2.5x cover, we will have more than one time receivable cover in all the projects from the projects already sold. And the larger NBFCs have stopped disbursing during last two months to home loan customers, we have been seeing that developers are encouraging customers to approach banks for their home loan requirement. So, we do not see too many issues coming out of this also.

We always wanted to focus in our area with better domain knowledge and with controlled geographical presence. And this will now help us in sustaining in this difficult scenario.

So, there was a question from one of our investors that whether we are offering interest moratorium or principle moratorium in our wholesale loan. In none of our case we do not offer any kind of interest moratorium. In few of the cases there are principal moratorium which can range from 0 to 6 months. But still we have a complete control on the escrow accont. And we cover our principle account through capitalization of escrow account, and that range, depending on the project is from 25% to 90%. And we have seen reasonable collection in all our projects, even during the moratorium period.

Now coming to wholesale small, which we call redevelopment flows, small developer loans. This is an area which we have been focusing and we will continue to focus. These are the loans given to small developers with strong vintage who are in redevelopment of existing small houses in Delhi and Gurgaon. And we have been focusing in this segment.

As you know that there are very few group housing projects in Delhi, and so the new supply largely comes through the redevelopment of existing houses. In this case builder either buys entire property or enters into a joint development with owner to construct typically four floors. The redevelopment market historically has been very stable. We have seen this during even the period of demonetization and even during the economic crises of 2008, that even in those period also this market has performed very good. So, we are only focused on small sized houses in the segment with a gestation of 9 to 15 months.

So, these projects have very less regulatory approvals. Only we have to take one building plan approval from the local municipal corporation. So, we have seen steady growth numbers in this segment and have tried to penetrate Delhi and Gurgaon market, which are being funded now by banks and large NBFCs in the form of LAP or housing loans. Our LTV in these loans is not more than 50% and in these loans there is a very strong equity contribution from the developer and we are the sole lender to the project. Going ahead, we will focus more in this segment.

And regarding our growth in the current scenario, going ahead we will be focusing to grow our retail SME book and wholesale smaller builders, small floor financing, so that the contribution from these two segments to the total AUM is increased. If you see during last two quarters also, the contribution from this segment is increasing. We will be utilizing the collection from the wholesale segment to fund the growth of these segments. In the retail SME, with 19 branches operational, we are seeing disbursement rising month-on-month, October has been the best month so far.

We have introduced school loan product in our SME segment six months back as a part of our SME product line. And it is gaining good traction in the market. And with decreasing competitive intensity, we expect this secured lending product to do well.

So, with this small update we will now open to question-and-answers from you.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Raj Sharma, an individual investor. Please go ahead.

Raj Sharma: Just a few questions I have. First, you guided for 50% kind of AUM growth for next four, five years almost some time back. So, do you have any moderation in the plan or does it remain same considering the scenario we are in right now?

Rohit Gupta: Officially we have never indicated that we will be growing at those, but yes we intend and we aspire to grow with those kind of numbers in next three to five years. And now in the prevailing situation, we may see that these kind of growth may not be there in next two quarters, but definitely we are geared up for achieving these kind of growth. And seeing our debt-equity ratio leads lot of scope to grow ourselves. So, we will be striving hard to achieve these growth in the coming years.

Raj Sharma: Again, another question on the growth part only. We kind of plan to have 18 to 25 branches by this year end.

Rohit Gupta: We have done 19 branches, we already have presence in more than five states. And we thought in this quarter we will be focusing on existing expansion that we have done, and we may be adding two, three more branches. And we will be focusing more on the existing branches to increase the operational metrics of each and every branch. And then we will expand in the next year.

Raj Sharma: And any revival you are seeing in real-estate market in NCR region?

Rohit Gupta: If you see in the NCR, the areas where we are focused on, we were primarily focused on those areas where end consumer demand is there and it is more on the affordable side. So, the demand has kicked during the last 6 to 9 months. Even if you take data from various other developers, there was news by **(Inaudible) 16:21.5** he has told that in a month he has sold Gaursons (a big developers) 3,000 apartments. So, the market is picking up where the projects are either complete or nearing completion, and where the end consumer demand is there. Few areas which were more speculative, where economic activity is less, areas like Yamuna Expressway, maybe Faridabad and certain areas of Dwarka Expressway, Manesar side, there the speculative activity was more and in those areas the demand is not too great. But our focus always has been to focus on those areas where the end-consumer demand has been there. So, the things have revived up, the numbers were far better what they were during last year. And even if you see, we used to perceive that our loan portfolio will run down in three to four years, but in most of the cases we have seen that our account has run down 18 to 24 months. So that also indicates that the demand was picking up. So, to maintain this demand the customer should be able to get the housing loan. And apart from that, we do not see that the projects which were complete and area where the end consumer demand is there, those projects are reasonably good. And there has been slowdown in areas, specifically in Gurgaon, where the ticket size has been higher. But our focus has been more on the affordable side of the segment, between Rs. 30 lakhs to Rs. 60 lakhs, mainly in areas like Rajnagar extension, Noida extension, Noida and certain parts of Indrapuram, Vasundhara. So, these are areas which are high-density areas and still there is demand for the projects which are **(Inaudible) 18:17.2.** nearing to completion.

Raj Sharma: Sir, one last question from my side. What is the gross NPA and net NPA level at this point of time?

Rohit Gupta: I think gross NPAs are 0.02% and so they have not become relevant till date for us.

Raj Sharma: Sir, I have one request actually. Presentation is quite exhaustive, even if it is 0 NPA, if we can put a small chart as well that will be great for many people to understand.

Rohit Gupta: Yes, we will do that. And we will come up with additional two, three slides, one maybe on the ALM side and secondly maybe on the NPA side which you are asking for.

Moderator: Thank you. Our next question is from the line of Siddharth Agarwal, an individual investor. Please go ahead.

Siddharth Agarwal: Sir, my first question is, if it is possible for you to share with us our average ticket size and leads in the wholesale as well as retail segment? In wholesale we have three different products, so what is the average ticket size?

Rohit Gupta: The IRRs are around 17.5% to 18% and on the SME side 19.5%.

Siddharth Agarwal: And sir, we have launched this new product, the school loan. So, could you explain to us this product a little bit more that in the LAP what is the average ticket size? Because typically you also mentioned that you intend to roll it out this product also through the SME branches.

Rajeev Mehra: The school loan product is actually part of SME only. And this product is being driven through our branch network, primarily as Rohit mentioned a few minutes back, we have got 19 branches now. So, this product is being basically distributed through these branches. When you talk about the kind of schools that we are doing, we are basically targeting schools which are the in tier-2, tier-3 cities and which happens to be majorly unbanked market, from the banking perspective at least. So there is a decent scope of penetrating this segment. And number two, again, there is a decent scope of deriving the IRRs that we want to maintain in this segment. The average ticket size in school loan is somewhere around Rs. 14 lakhs to Rs. 16 lakhs as of now.

Siddharth Agarwal: So, for SME secured the ticket size would be much lower, I guess, roughly Rs. 5 lakhs or so, or what is the ticket size for SME secured?

Rajeev Mehra: The micro-SME secured, the average ticket size is Rs. 6.5 lakh.

Siddharth Agarwal: So, through our branches school loan would be higher value product which…

Rajeev Mehra: So, you may say that this is the second product line within the SME space. We started off with micro-SME traded loans and now school loans will be the second product that the branch will be selling.

Siddharth Agarwal: So, are there any other similar products which the team is working on which we can further distribute through our branches?

Rajeev Mehra: We are thinking on few products and in a due course of time we will be sharing that information.

Siddharth Agarwal: How long in our model do we expect our branches to start operationally breakeven? And if we have actually done it for any of our existing branches

Rajeev Mehra: See, the model that we had prepared for our branches, so branches depending on the location they breakeven anywhere between six months to nine months. But again, it varies sometimes from one location to another, depending upon the kind of demand that you would have for those kind of products.

Moderator: Thank you. Our next question is from the line of Ajay Sharma from Cycas Investment Advisors. Please go ahead.

Ajay Sharma: I just had a quick question about your credit risk monitoring procedures. Now, I understand that you have a very detailed hands on procedure where you have monthly client visits, then you have strict criteria, specially for your builder loans. Do you think that all of this will continue as the company grows? And what do you expect might happen to your non-performing asset as your loan book grows?

Rohit Gupta: We are very particular that we are able to maintain and improve our credit diligence. And we are always working on that. And we have been very conservative and in last, if you see 30 – 40 days, we have been reviewing and we have reviewed most of our existing customers instead of looking for focusing on fresh business. So, that has been our philosophy. And we will try to maintain it and even with increased size. But definitely, in this segment in the group housing large, if you see any of the companies you cannot have too many customers. So, going ahead our average ticket size will increase. So that has been with every company and beyond a point you cannot have too many customers in this segment. And the second one, which we are more focused on is the small developer loan segment. This kind of a product where you can manage very high number of customers so that will be our focus area going ahead.

Ajay Sharma: And one final question, in a few years, maybe five, six years when your loan book grows to Rs. 1,000 crores or something like that, what do you expect your non-performing asset to be like? What do you expect your long-run non-performing assets to be?

Rohit Gupta: I think it is a big call. But definitely our focus always has been to maintain our delinquency to the lowest. So we will be working with that mindset. But yes, our ultimate aim will be to maintain our gross NPAs between 1% - 1.5% in the long run.

Moderator: Thank you. Our next question is from the line of Sachit Singh, an individual investor. Please go ahead.

Sachit Singh: So, there were some plan about digital lending and you are planning to hire some CTO with all these integrations. So, can you give some update on that side?

Rohit Gupta: We wanted to utilize the digital technology in our existing portfolio. We have worked as a lender to digital platform, just to gain experience from them and to see where we can utilize in our exiting operation. As of now we do not want to be going into any platform which is fully digitalized, primarily because it is an unsecured where you can fully digitalize it. And we do not have in mind going anything which is totally unsecured. So, we will be utilizing the technology where it is required as we move to Fin1 and we will be integrating the technology where it will be possible and will be helping us. And I think Rajeev would like to add certain more thing in this regard.

Rajeev Mehra: So, we have already started doing small activities on the digitalization part as a whole. And when we say digitalization, we are not only restricted to core lending only but we are also looking at digitalization at various other aspects of the business, including human resources, including our collection system. So, NACH is one of the key measures of collecting your EMIs. So, there we are moving ahead with tech process and we already started using their technology for collections. We are developing HRMS system where the entire employee process engagement is done digitally. And plus, we are also in the process of using technology on the lending side wherein some kind of digitalization will happen in terms of taking broad level decision in terms of whether to go ahead with the loan or not. While in mortgage loans it is quite difficult to go fully digitalize, as Rohit mentioned. The technology till now has been more applicable for unsecured personal loans and business loans. But in mortgage we are still trying to find some ways where we can use technology for automating certain processes and decisions. Hope that answers your question.

Sachit Singh: Yes. Because there was some talk of using cash flows and I think GST related data for lending side and you were planning to hire a CTO or something.

Rohit Gupta: Yes, we are still looking for a person on the CTO side who will be helping us. We are just looking that how much we can digitalize our existing platform. So there are certain things, in secured business, as Rajeev has told you, you cannot fully digitize it. As we have now started giving mobile applications to our sales people, when they visit those customers they take their data, take their photographs, can do an online CIBIL check and upload that helps us to improve TAT and all those things. So, we will try to do certain algos around that which will help us to make a fast decision whether we want to go ahead or not. But still, secured lending there are certain things beyond which we cannot fully digitalize it.

Moderator: Thank you. Our next question is from the line of Saket Saraogi, an individual investor. Please go ahead.

Saket Saraogi: Sir, actually I had a question. One thing, in the call you told that your loan book could get impacted in case the developers are not able to sell, in case they do not get the loans from housing finance companies. So, sir, can you help me with some guidance, like, as of now from your clients or whomever you give loans to, you are getting any idea like are there any stoppage of loans that the housing companies are not disbursing home loans which could impact mortgage that we give?

Rohit Gupta: Yes, you can say that. After this September end we have seen a little slowdown, specifically by two, three larger NBFCs. They are virtually not disbursing any fresh home loans. Now gradually even I told in my opening remarks also, the developer is asking the customers to move to the banks and the other NBFCs which are doing it. I think in the next coming few months the transformation will happen. And even when we have analyzed most of our existing borrowers and to see from where their borrowers have funded it, in none of the case we have found where they aggregate total lending from these larger NBFCs for more than 5% to 6%. So, out of the total from our existing book if these are less than 5% to 6% they should not be impacting in a larger way. So there was a little slowdown during last 1.5 months. I think now the things are getting better and things should improve.

Saket Saraogi: Sir, one more question on the wholesale credit side. From the presentation we had given it seemed like asset growth in that part of the business had been slightly getting muted. So is there anything that we are doing intentionally or there is some other reason behind that?

Rohit Gupta: No, we have always said that our focus is to build the SME and the wholesale small, which is like a LAP and is redevelopment of existing housing. So, as we are gaining traction in these segments, now our branch expansion has happened and October has been the best month. So, both of these segments will have a larger share going ahead in our books.

Saket Saraogi: So, do we intend to run down this book completely or what is…

Rohit Gupta: No, not completely. We have a very good domain knowledge in this segment and still none of our loans have gone bad, all our loans are doing good. And we have very good domain knowledge and expertise around this area also. Going ahead we will be a little more choosy and will be funding those cases where we are very comfortable.

Saket Saraogi: Sir, is there any percentage like this kind of book you want in wholesale and this you want in retail SME? Is there anything in our mind like we are trying to do 50-50 or anything of that sort regarding the share?

Rohit Gupta: I would not like to say right now in terms of percentage, but now the focus is on the other two segments. So, this you can say like a filler segment and the more we are able to move our book towards other two segments, yes, definitely over a period of time the percentage will go down.

Saket Saraogi: One question, you told regarding the SME secured part that we give loan to the secured part, the interest is at 19.5%, right?

Rohit Gupta: Yes, including processing charges and all.

Saket Saraogi: So, what I wanted to know, for secured part the interest rate is quite high, so is there a particular reason why we are able to get this kind of return or is it like in general this kind of hit will hit these kind of businesses?

Rajeev Mehra: What actually happens is that within SME you have got sub-categories available. So you have got micro-SME, you have got upper SME. The low interest rate products are primarily targeted for the upper SME kind of customers, if you can find in large the properties are prime properties of metro areas. There you have interest rates ranging from 9% to 12%. Then for the micro SME segment, which are basically tier-2, tier-3 kind of cities, and the ticket size is small, the property valuations are also correspondingly less, these are the interest rates which basically range from 16% and going up to 24%. This is what the market interest rate is going on.

Rohit Gupta: They do not have balance sheet to show, they do not have any GST returns to file

Rajeev Mehra: So, these are non-income products. And we are basically doing lending on judgmental analysis, past track records and the property that you are taking.

Saket Saraogi: So, property is clear on papers?

Rohit Gupta: Yes, property is clear on paper. It is just that the customer does not have income proof to get loan from a larger NBFC or a bank. That gives a huge space for organization like us to cater to.

Saket Saraogi: One more thing, from the funding size which we raise, after this event that we are seeing from two, three months, on our part how we see, on raising funds has it been any difficult or what kind of incremental yields we have to pay, if you can say some details on that?

Rohit Gupta: Come again, I wasn't able to focus on the question.

Saket Saraogi: My question was regards to the lending, like, raising of funds from the banks or any other institution from where we raise for giving it further. So, after this IL&FS issue have we been able to raise fund or we are also facing difficulty in raising funds? And what kind of interest rate incremental we have to pay in case we have raised?

Rohit Gupta: Definitely, I think we have seen 0.5% to 1% interest rate increase in last two months. We had sanctions prior to this September episode which were put on hold by the lenders. Post that we had a small sanction of Rs. 10 crores from NABARD subsidiary. we are in discussion with some of the PSU banks and larger NBFCs. I think what is stopping them is the current scenario, wait and watch kind of a scenario. And we are quite hopeful that after another month the lenders will start lending. And still if you see, our numbers both on the debt equity ratio side and both on the performance and all those and profitability, it wouldn't be any issue that we will not be able to raise funds. Definitely it will be muted the way it used to happen two months back, but definitely we should be able to raise.

Saket Saraogi: So, in that case, at least for next two quarters our growth could also get a bit derailed for next two quarters, in that case?

Rohit Gupta: I think that has been derailed for whole industry as of date.

Moderator: Thank you. Our next question is from the line of Siddharth Agarwal, an individual investor. Please go ahead.

Siddharth Agarwal: Sir, my question is regarding credit rating, we are currently BBB rated, so when is it due for review, is that expecting anytime soon?

Rohit Gupta: Yes, I think our view is its going to happen in January and we will be going for review. And hopefully I think we should be able to get some better rating. Unless until any credit rating has just put a perception in their mind that we do not want to upgrade any NBFC in the current scenario, that is a perception which credit rating may have for an immediate period, so it is an different issue. Otherwise based on our performance and numbers we should be able to get a better rating.

Siddharth Agarwal: And of the entire loan book currently of the AUM, what percentage is secured?

Rohit Gupta: It will be more than 99.5% secured.

Rajeev Mehra: So, we are not doing any unsecured, we used to do it on the SME retail side.

Siddharth Agarwal: So, our loan book could have a higher yield, so why did we just stop doing the unsecured loans?

Rohit Gupta: Siddharth, 30th June was the last I think we did it. And we had 144 accounts. So I used to see that the parentage of cheque bouncing is much more in the unsecured. So we thought that seeing the size and our conservative approach, we thought as of now we should not be going into unsecured segment. We want to build ourselves for next 1.5 – 2 years and then we will see if we want to add this unsecured product or not.

Rajeev Mehra: In fact, Siddharth, if you see the unsecured loan segment right now, the way the upper SME businesses their repayment habits are far better on the unsecured part as compared to micro-SMEs. That is what the market trend is also showing now. So, we, at the very right time decided not to pursue it further for the next couple of years.

Siddharth Agarwal: So, basically this could help us in managing our credit risk a lot better in the near future?

Rajeev Mehra: That is right.

Siddharth Agarwal: And once we are a little bit more comfortable with our retail rollout, we may further decide to increase the unsecured portion, depending on how our experience has been?

Rajeev Mehra: The collection efforts required on unsecured loans are extremely high. A lot of new age NBFCs are now struggling who had lent huge amount of money on the unsecured side, they are all struggling very hard on the collection side right now

Siddharth Agarwal: Could you also please talk a little bit about the competitive intensity in this micro-SME sort of segment? Where you are already saying that on the unsecured side a lot of people are struggling, so does that mean the competitive intensity is the same, is it improving, are you seeing any changes in the competitive intensity in the environment?

Rajeev Mehra: See, so there are two parts to it. Number one, you would have competition from banks which is actually not there in this segment because this is unbanked category. Yes, you would have competition from few other NBFCs, which is again a combination of some old NBFCs which are there in the market for a long time and some new age NBFCs which have also targeted this segment. So, we look at it from two perspectives, one, the benefit is that this industry is developing, because once you have few NBFCs targeting this segment you will have better data to analyze as to how the trends are moving, both in terms of volumes that you are doing month-on-month as well as in terms of delinquency trends. The second thing is, yes, the impact of competition, and I think that competition is available in all segments, all products in the financial space. And essentially, if your turnaround time is fast, TAT what you call, then you have an edge over others. So, we have tried to build in some innovative processes to ensure that we are a step ahead of competition. And we are able to deliver, at least we are able to get back to the customer very quickly that whether we are opposing this loan or not. That gives us that competitive edge.

Moderator: Thank you. Our next question is from the line of Saket Saraogi, an individual investor. Please go ahead.

Saket Saraogi: Sir, actually one question more. The question was, in the presentation you told we are implementing Fin1 and it will go live next month. So, could you help me like how it will help our company in doing the business? Or in which way it will be helping us?

Rajeev Mehra: See, Finnone is one of the best operating systems available in the market today. And the good thing of Finnone is that, it is a very-very exhaustive system. So it has the capacity of doing loan origination as well as management of loans for a variety of products, unsecured, secured, all kind of products can be put on Finnone. Number two, we are now moving towards complete online approvals using Finnone itself. So manual approvals will be replaced by approvals on Finnone, it saves time. And you get live data as to how many applications have got logged in, how many approvals have come in, how many deals are at what stage. So, turnaround time can be monitored very-very closely and correctly. The third advantage with Finnone is that once you have given loans you can use lot of data analytics to then make changes in your credit policies and processes. So, if you see a certain segment having some bit of challenge you can appropriately tweak the policy of lending, or you can make various ways where you are more comfortable lending the money. So, Fin1 actually gives us that platform of doing faster processing as well as better analytics.

Saket Saraogi: Sir, one thing more. As in the presentation we saw that we have opened six new branches during the quarter. Could you help me like this was basically, have we opened any branches after this quarter?

Rajeev Mehra: So, actually the plan was that we started off with Punjab, Haryana, Delhi, and gradually moved into Rajasthan. The final destination state for this financial year was Gujarat, again, it is a very-very big SME market. So, what actually happened was that the plan that we had in terms of quarter-to-quarter opening branches, we were fortunately ahead of that plan. So we actually opened the Gujarat branches much before plan. Obviously, in this quarter we do not plan to open any further, because the branches are already in place and majority of manpower has already joined. So now the time for us is to get into the productivity side of the business, so that this manpower become productive for us and we start generating business from them.

Saket Saraogi: So, over the period of time, maybe two, three years down the line do we have any ballpark figure like these much branches we want and these many streets you want to cover, anything or that sort?

Rajeev Mehra: See, we are open to more states for sure. But again, it will depend on the market dynamics, the business activity what kind of productivity we get from our existing branches and what kind of delinquency levels we face. So this will be a function of that. But yes, we have more states in mind, definitely, which are SME centric states. SMEs and micro-SMEs, 65 million SMEs are there.

Saket Saraogi: Sir, one question, the growth as you see for two quarters maybe it will be impacted, so the impact of this event that has gone, how long do we see that this should be continuing? Or is actually the impact actual or more a perception, anything if you can share more on that?

Rajeev Mehra: I think you have asked the most difficult question, nobody can answer it at this point of time. It is a macroeconomic activity actually.

Rohit Gupta: Definitely this event has have an impact in the near future, primarily the kind of growth which this sector has witnessed was phenomenal. And moreover, I think this event is more for NBFC, HFCs who are working and growing phenomenally with a very low spread and with kind of short-term borrowing they were getting. But with the companies like us and we primarily aim, to build a company that we have a focus on niche and domain knowledge. We may not be very big in terms of our size, definitely we want to build our company focused on particular few segments and pockets and build a quality book with low delinquency. So that is our aim. And definitely if the market dynamics will allow us to grow and we will definitely grow, which we have seen in last 1.5 – 2 years also.

Saket Saraogi: So, the six branches that we have opened, as the liquidity situation is tight so I think the branches will also not be able to work to the best capacities in that case?

Rohit Gupta: No, that is not a situation even going forward for next 15 to 18 months, because our cash flows from group housing segment is very-very strong. Even in the presentation I told that in October we have collected Rs.25 crores from our group housing segment, even the large wholesale segment and Rs. 17 crores till now during this 15 months, including Diwali period. So, this cash flow will be able to fund our SME segment and to some extent our small wholesale segment during next 18 months till combined as of now both are less than Rs. 100 crores. And still we have lot of scope to grow our business from the cash flows of the wholesale segment.

Moderator: Thank you. That was the last question in queue. I now hand the conference over to Mr. Digant Haria for closing comments.

Digant Haria: Thanks everyone for joining the call. Thanks Rohit, thanks Rajeev, thanks Gaurav. I think hopefully in the next quarter shall be a much better quarter in terms of macro. And maybe we will all meet then and talk something also next time. Thank you, everyone. See you guys in next quarter.

Rohit Gupta: Thank you all for participating on the call. If any queries are there, please mail us and we will look forward to interacting with you. Thank you.

Moderator: Thank you. Ladies & gentlemen, on behalf of Antique Stock Broking, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.