Date: 17.01.2020

To,
The Manager,
Department of Corporate Services,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400001

Sub: Transcript of Conference Call held on 07th January, 2020.
Scrip Code: 530067

Dear Sir,

Please find enclosed the transcript of the conference call conducted by the company held on 07.01.2020.

This is for your information and record.

For CSL Finance Limited
For CSL FINANCE LIMITED
Akash
COMPANY SECRETARY
Akash Gupta
Company Secretary

Encl: a/a

“CSL Finance Limited
Q2 FY2020 Earnings Conference Call”

January 07, 2020

ANALYST: **MR. DIGANT HARIA – ANTIQUE STOCK BROKING LIMITED**

MANAGEMENT: **MR. ROHIT GUPTA - MANAGING DIRECTOR – CSL FINANCE LIMITED**
MR. AKASH GUPTA - LEGAL HEAD AND COMPANY SECRETARY – CSL FINANCE LIMITED
MR. CHANDAN KUMAR - CREDIT HEAD – CSL FINANCE LIMITED
MR GAURAV SUD - ADVISOR – CSL FINANCE LIMITED

Moderator: Ladies and Gentlemen good day and welcome to the CSL Finance Limited's Q2 FY2020 Earnings conference call, hosted by Antique Stock Broking. We have with us today the management from CSL Finance represented by Mr. Rohit Gupta, Managing Director, Mr. Akash Gupta, Legal Head and Company Secretary and Mr. Gaurav Sud, Advisor. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr Digant Haria from Antique Stock Broking, Thank you and over to you Sir.

Digant Haria: A very good afternoon to all of you. Thanks for taking out time. Just one comment on this unusual timing of the concall. It is a conference call for Q2 results. It was mainly because CSL is transitioning to Ind-AS that the results came late in December and because it was December and we thought it is most appropriate to do it when everybody is back. That is, it from my side. I will hand over to Rohit Gupta, who is the MD. He will just take us through how the Q2 was, how the environment looked like and what the company is trying to do in this tough environment. Over to you Rohit ji!

Rohit Gupta: Thanks, Digant. Very warm welcome to the CSL Finance Q2 investor call. I am joined by Chandan who is our Head of the Wholesale Credit Head along with Akash who is our Legal and Company Secretary and myself.

To start with the last six months has been a period of consolidation for our operation. Overall, we feel our performance in first half-year for financial year 2020 has been good despite the liquidity challenges faced by NBFCs during the period. On a six-monthly basis our revenue was up by 10% to 30.52 Crores in first half-year financial 2020. Profit after tax was up by 18% to 13.78 Crores in this financial year and this first half year

On quarterly basis in Q2, financial year 2020 our revenue had increased by 8% year-on-year to 15.13 Crores and PAT has increased by 30% year-on-year to 7.26 Crores. Our AUM as on September 30, 2019 was 318 Crores, a growth of nearly 1.41% year-on-year. This was largely an outcome of our cautious approach towards lending in the wholesale markets. In spite of our wholesale book performing well, we were impacted by the adverse market perception towards loan in the real sector.

Many NBFC's were impacted by the pause in this phase and that drove risk aversion among the banks and the rating agency towards loan in this space. In our books such loan has performed reasonably well and we were able to manage our wholesale lending book well. Even though we had adverse environment we chose to be a little more cautious as slowed down incremental lending in the wholesale book.

We used the cash flows from the wholesale book to fund the growth in the retail SME book. The AUM wholesale lending book was as on September 30, was 249 Crores, degrowth of 11%. However, we continue to grow the small ticket loan in the wholesale segment, which was 18.45 Crores as on September 30, 2019 a growth of 8%.

Given the decline in the AUM of the wholesale segment cash flows from our wholesale segment remains robust, which were partly utilised towards funding the growth our SME retail segments. We maintain certain adequacy ratio of 70%, which is one of the best among the smaller NBFC's. We will continue to grow our retail SME's loan book using the fund flows from the wholesale loan book till the time we are able to borrow again at competitive rates.

Our SME segment continues to perform well and our AUM increased to 68.62 Crores as on September 30, 2019, a growth of 101% year-on-year. We have expanded our presence to Delhi-NCR, Haryana, Punjab, Uttarakhand, Gujarat and Rajasthan and our branch network has grown to 18 branches as on September 30, 2019.

Our strategy of building out the SME is working out well. As on September 30, 2019, the SME loan book is 22% of AUM versus 11% last year. This is a good validation of our diversification strategies that we have set rolling two years back. We will continue to grow our SME loan book and expect this growth to accelerate as the Indian economy re-bounces and the stress reduces in certain sectors. We remain committed to our strategy of focusing on profitable growth and are working towards making our branches profitable.

We have forayed into retailer SME segment we had limited experience in running retail branch driven operations. With the time, we have learnt the ropes and used this period to build our internal processes and domain knowledge. As part of this exercise, we have revamped the North Indian retail operations especially in Punjab and Haryana and we have hired a new cluster head and training branch wise productivity improvements to make the branches profitable.

The tight liquidity and lack of debt availability for smaller NBFC's continues to remain a significant challenge for the industry. Since the IL&FS group default prices in September 2018 we have decided to maintain a minimum level of liquidity in our books. This means at any given time we have large reserves of idle cash or unutilized limits and then we historically use to maintain. This will allow us to scale up our SME business in terms of any short-term disruption in the market but at the same time with the negative carry cost, it will impact our bottomline marginally.

We think it is a prudent strategy in the current macro environment and we will continue to review this every quarter. We expect a moderate growth in the coming years. Loan book has performed quite well in the stressful period of last one year. We expect the lenders and the credit rating agencies to take note of our performance and start lending again overtime. Then we continue to fine tune our operational matrix and focus on building branch wise profitability in our retail operations.

That brings me to the initial update from our side and we are open for question answer session. Thanks.

Moderator: Thank you. We are now taking to question answer session. The first question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

Ankit Gupta: Rohit, just wanted to know your strategy on the wholesale book I think we per se have not faced any challenge in terms of delinquency or any issues here, but because of pressure from rating agencies and lenders we are not growing much but from a medium to longer term perspective how do you see this business shaping up for us let us say a year or a two year down the line and the liquidity situation eases?

Rohit Gupta: Definitely, first we have to understand we are little different from the larger NBFC's and the real estate play. We have only focussed on three sides. First the group housing where it was last mile kind of a funding, the project was complete or was nearing completion and was in the affordable side and where the end-consumer demand was there. That was the basic parameter, while choosing any borrower in the segment and that you can say was one of the reasons that we have been able to perform ourselves.

Another segment which we have and which expanded reasonably well during last one-one and half years is affordable housing segment. When we say affordable housing segment, the ticket size is less than 20 lakhs and where we also see that the location is good and the buildup is good.

In most of our project where we have funded on the affordable house the projects are 90% to 100% sold from day one. The challenge of cash flows is not there. Who knows this whole affordable housing segment? If the project is sold the cash flow is very strong and are very predictable so the challenge on the execution does not come and as a lender we work not less than two to two and half times cover so we have risked, when the project is 60%-70% complete. So, we have a lot of cushion even in the affordable housing segment as a lender when we enter into those projects.

Thirdly, has been our builder floor segment, which has been very stable in terms of pricing and even the demand-supply situation is not there, the mismatch is not great because it is a low gestations project, typically twelve months to eighteen months and demand and supply corrects accordingly.

We have been doing in very stable markets of South Delhi and Gurgaon where if you see our portfolio has even increased a little bit so what is that the general perception around the market that real estate is very bad. No doubt the industry is not doing good. The people who have overleveraged themselves they are in lot of difficulties so because of that we have even a gone very aggressive feeling last one year because whenever we meet any of our lenders or rating agencies they are very susceptible and the perception that they take about a real estate industry is that it is extremely bad and that is why we have slowed down there. We have focussed during last nine months to grow our SME side of the business and here we have done lot of efforts in improving our processes and system and where revamping of scheme was required we have done in the states of Punjab and Haryana.

Going forward your question that whether wholesale is definitely in two segments primarily, that will be the affordable housing segment and the builder loan segment and the perception improves and the market improves we will be growing in that segment. It is the group housing segment which we see that going forward we may not see too much business on that side. That is what we see in future.

Builder loan segment it is a very stable and the only issue in that segment is that overall the margins of the industry has come down, as we are doing at a little higher IRR the borrowers are little choosy at this point of time

Ankit Gupta: When the liquidity situation improves from a strategy perspective this will also remain one of our core focus areas or we will majorly focus on doing the retail side of our loan book?

Rohit Gupta: Priority will always be the SME side but that has also been in last six months our disbursement side we were little slow because we were revamping our existing teams and fine tuning our internal processes around that segment. Now most of the things has been done with first phase of that and hopefully we should see that we will be scaling up SME little faster as compared to what we have been able to do in last six to nine months and along with that definitely where we will see in these two builder loan segment and affordable side we will be growing if there could be situation improves, but going forward the mix will definitely move towards SME.

Ankit Gupta: Second question Rohit was on the borrowing profile if we see last loan that we took was almost 16 months back from any other so what is the main issue that we are facing and getting bank borrowings, what are the key challenges do you think that we are facing in getting the borrowing from banks?

Rohit Gupta: There are two three challenges. After IL&FS episode we had roughly sanctions or in principle approvals of 40 Crores to 50 Crores even from companies like HDFC Bank also but all lenders stopped and we will be a little cautious at that time and they all hold up their disbursement. After that when we started looking for borrowings, I will say last quarter of this year so the kind of rates were offered, we were not ready to borrow at those rates. Typically, the rates were coming between 14% and 16% and micro MFI companies were little aggressive on borrowing at those rates. We thought here we will not be growing our wholesale business in the current scenario and our collections has been very strong even if your see in our investor presentation, we have been doing collections of 55 Crores to 60 Crores every quarter mainly from wholesale side and as a strategy when we have thought that because as lenders and rating agencies are little more susceptible and their perception is not good so we thought of not growing our wholesale business so we found that is for no reason we borrow at 14%-15%, sit on cash, do a negative carry because in the last nine months to twelve months if you see we have been sitting on healthy unutilized cash equivalents roughly between 20 Crores to 30 Crores in each and every quarter. So, it does not make any sense that if we borrow either it will be utilised only towards wholesale and that was not perceived to be a segment to be in, in the current scenario. So strategically we thought that not to borrow in last six to nine months but at the same time, now we are looking for borrowing building, new relationships. We are telling our lenders start with small amounts because even to fund our SME business which is our focus, our cash flows have been very, very strong. We still visualize that we will be having 150 Crores to 180 Crores cash flows in coming twelve months. That will help us to improve our mix towards the SME and now we are also going for and our view is going with the CRISIL in spite of few of our people sources go for little less known rating agencies we thought we will go with the best one even if they are most conservative. We are testing ourselves and we want to start going little more aggressively in the SME in the sense after building a good platform and definitely there were few lapses when we just started SME initially since last ten months I am seeing personally along with the new team which we have, the senior team so we have improved lot of processes there and so our first strategy is to improve our mix and we go up to at least 30% to 40% on the SME side and then we will start growing the wholesale along with that.

Ankit Gupta: Rohit, one question on the SME side only. Can you briefly talk about what is our key credit appraisal process while sanctioning a loan on the SME side and what is the average yield on the loans from the SME side?

Rohit Gupta: I will pass on this question to Chandan who is our Credit Head and IRR we are basically working within 18% to 20% and IRR we are working. The segment and the key parameters Chandan will looks little more broadly.

Chandan Kumar: Whenever a credit SME flows to us the credit screening starts with proper due diligence. That login sent to you, the basic terms that is the application form, KYC and others that is that we are generally into a kind of unorganised sector. We do not believe on getting too much of financial docs from the customer itself. We have kept our login documents very simple that is the application form, KYC and their basic banking whatever it is whether it is six months available or the best possible way that we are getting and the other part that is included in to the login part as such as their business as well as their residential facts.

Once the file is get logged into the system then the credit matter starts appraisal process by pulling out all the due diligence reports like related to its KYC, that is pan check, there are AADHAAR check that is a KYC check that is done from the system and also the CIBIL is pulled then and there.

As Rohit has mentioned that we have recently taken 100 additional applications for the fraud check itself, so Hunter would an application that would be controlling the fraud part that is applied with other lenders too. Once all these details are available to us the credit manager makes an initial tele meeting with the customer to understands all requirements, post that a kind of initial judgement is made that whether the customer falls into our segment or not, post that physical PD that is the kind of a face-to-face PD or a kind of business meeting is done at business premises of the customer and the residential verification is also done sequentially by the credit manager itself.

If everything goes in line like while assessing any business we end up plans about the business model that from one what is the cap in and cap out cycle, how much is the profit and everything he relates with the industry itself. Once he is satisfied with all the doubts the customer is eligible for that much of loan amount, he applies that much and a kind of live report is formed that assesses his income eligibility. Basis that he applies all that formula and derives his eligibility and finds out that how much customer is eligible for paying any loan amount and the size on the loan amount for going or to go with the customer or not to go with the customer. It can also cover the collateral due diligence that is also a very important part. The income eligible part we keep our cost that is a kind of general accessibility that is 50% of our monthly income that is assessed by the credit manager and the LTV ranges between 40% and 50% at max.

Rohit Gupta: I think your question as Chandan has explained in our segment which is unorganised segment there you cannot have too many data for that because it is too much business from banking. ITR returns are negligible, will not give you any kind of or you cannot make out from that so you have to just face out while doing a personnel discussion with business meeting with the customer, assessing his business, assessing what he has made during last ten to fifteen years, whether what he has build during last ten to fifteen years what kind of assets you have build, what kind of business he has grown, because all that if he has made some money it has gone into making his business or his personnel assets so that that is where we get a clue from. We see what kind of business he is doing and the kind of collateral that is being offered. The one area which we are focussing and it has been exceedingly good for has been education loan to small schools in Tier III, Tier-IV cities. There we can get little more data about number of student's strength, how long the school has been running, the stability factor, the affiliations with the board and all those and we get little more reference check from other customers. As of now we have roughly around 1150-1200 accounts and out of which roughly around 280 school accounts so school as a component is growing big and average ticket size is also bigger as compared to SME one. That is where we are.

Ankit Gupta: So what kind of collateral do you take from this SME customers?

Rohit Gupta: Literally most of the cases is primarily they are residential property and in a few of the cases may be they are business properties and we are only doing secured business so we are not doing unsecured which is little more easier to scale up and grow but still we are doing secured business and only a very small percentage of unsecured is there that is only into schools where we see the school is very good but either he wants some amount which we cannot give because we do not want to go beyond 25 lakhs to 30 lakhs and average ticket size is only stand to 12 lakhs so we want to start a relationship with that school. We give him the unsecured loan up to 5 lakhs even that is also capped that unsecured business is less than 10% of the total SME book and although totally it will be less than 1% to 2%.

Ankit Gupta: I have few more questions I will come back on that. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Sir what is the GNPA level or Net NPA level?

Rohit Gupta: I think we have given in our presentation and net NPA is 0.3% and the gross is less than 1% or 0.9%.

Ravi Naredi: Okay and what is the reason to make the concall after so long time?

Rohit Gupta: Frankly, we were in a transition period. Otherwise we have already given when we have started making concalls that we will doing after six months so for last two quarters we were transiting from Indian GAAP to Ind-AS and for that we have also appointed BDO as auditors and not as consultants to us to help us doing that transition and the existing version Fin1 on one or two factors were not able to give us those numbers. We had to work on certain numbers manually to write for those Ind-AS numbers so it took time for last two quarters to work out on the basis of Ind-AS so that we finished I think by

December 15 we came out with our results so then there was as holiday season coming for the Christmas and the New Year we thought we must maintain and coming to the investors every six months so that was only reason.

Ravi Naredi: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Sidharth Agarwal from Prudent Value Partners. Please go ahead.

Sidharth Agarwal: Good afternoon Rohit. Rohit my first question is for the financial next, year what is the target for the SME segment the AUM target?

Rohit Gupta: We want to improve our mix, so our target of in the long-term next three to four years is moving 50% to 60% towards SME, i.e., our strategy overall and the AUM will definitely depend on funding our SME business, our collections are very strong from the wholesale, so that is not a challenge for next six to nine months to fund, it is only till now we have been able to do not big between 3 Crores to 6 Crores per month and we have targeted that on the existing branch network we are able to do anything 8 Crores to 10 Crores per month that is our target and we do not want to increase our branches till end of this quarter and we want to improve our productivity of the existing branches that has been focused for last three months. There are lot of revamping that has happened in north because of that people joining and becoming productive it will take time and now that the process has complete. Hopefully the target which we have we should start achieving that in next one or two months.

Sidharth Agarwal: Okay, so basically if we aim roughly at 10 Crores disbursement per month so in a year from now our SME book could be roughly of the size of may be around 120 Crores or 140 Crores something around that type, right?

Rohit Gupta: No, it will be bigger than that and it is also a factor of that if we start opening more branches so our first target is to make existing branches productive and then we will start opening more branches. We have planned for opening more branches every year from next financial year onwards so that will be happening. One thing is very clear. We are very cautious about the peak and now we have done with few things internally in terms of our processing systems and revamping so we are geared up for improving our disbursement and hopefully we should be doing that.

Sidharth Agarwal: Overall, as of now how satisfied we are from a strategy of moving away from wholesale to SME? Is the transition as per what we have expected?

Rohit Gupta: I would say what we thought it was not to our expectations. Definitely we lack. In terms of the numbers we have thought and very frankly for us I am very open and frank in my answers so our focus was more on the wholesale because that was the largest take and the larger revenue which was coming on and I also as a management was more focussed on that. It is only during last ten months that my total focus and my senior team is towards on building the SME so we focussed on that and I always believe that unless and until we start with the strong platform where our internal processes, policies are fully in place and the right kind of team is there that exercise takes a little longer and now that has been done and going forward we should be doing better but the way we have been able to do till that I would say we lag in terms of what we thought we should be doing.

Sidharth Agarwal: It is good that we have been able to utilize this space for setting up processes in order, are you comfortable now with the processes, the operational processes whether it is credit or collection or renewal or operationally how we run the different branches from the hub and spoke?

Rohit Gupta: Definitely the first phase as it is an ongoing process, the initial platform which we want to build now we are fully done with that so we are now much more confident for gearing up the SME side.

Sidharth Agarwal: Sir on this educational institute lending business, this is a niche area for us where the performance has been good and we have been able to scale our book as well so can you talk a little bit more about the competition in this area, how is the competition and yield in this particular segment?

Rohit Gupta: Definitely, we are looking for yields between 18% and 20%, yes definitely there is competition from companies like Indian Food Finance, Ratna, even now AU Bank has also started doing it, even ICICI in certain pockets it is doing it and Manappuram has also opened a new division for focussing in this segment, yes definitely now we have the companies which were not there have also started looking at this segment but still I think there is lot of space and when you are present in few of the areas to build the certain domain knowledge about the area and those area or relationship with the people there, yes definitely competition is there in every space and yes in last few months, few of the companies have come up in this space also.

Sidharth Agarwal: Okay, Sir lastly in this environment where we keep on hearing that the economy is slowing down so the general view is that SMEs are facing a lot more business pressures so in an environment like this how are we handling our slippages or how much we have been managing our assets?

Rohit Gupta: Definitely, there is no doubt that economy is not in the best of the health and the unorganised and small SME players are facing problems and if it is only by improving your credit policies, by strengthening your collections, we can gear up and as a company we are cautious and that is why if you see in the last one year our focus has been to consolidate ourselves and we always think that if we are able to survive and improve our systems in the periods when the things are not doing good in the economy so that we will be utilizing ourselves in that space so that as the company we have been cautious and hopefully we should not be losing on that parameter going forward and we have to be dynamic as far the economic situations in the segment we are so there is no doubt and I would say for the ground level none of the every segments are in practice some may be little higher, some may be little less but overall the economy is not in a very good shape.

Moderator: Sir the line for the current participant got disconnected. Can we move to the next question?

Sidharth Agarwal: Yes please.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Rohit, first of all congratulations for a very decent performance in tough environment. Three questions from my side, on the wholesale book I think if I read your presentation correctly we are planning to unwind the wholesale LAP book right so I think of the total 250 Crores AUM around 25 Crores to 30 Crores AUM is what do we want to wind up. Sir anything other than that that we want to unwind in our wholesale book?

Rohit Gupta: That we have also indicated last year also, see wholesale LAP as a segment will come down because what we have seen that though we may have a very good collateral but the cash flows are not certain so our focus during last two years on the wholesale side is to fund those businesses where cash flows are predictable and where we have control of the cash flows and its only opportunity based. Sometimes when we come across any good opportunity there, we may be doing it depending on our liquidity position but that is not the target segment for us going forward in the wholesale LAP segment.

Dhwanil Desai: It is safe to assume that out of 250 Crores wholesale book around 220 Crores book something which we do not want to unwind and as and when we have an opportunity we will try to focus and grow a part of that book, is that a right understanding?

Rohit Gupta: Yes, you are absolutely right.

Dhwanil Desai: Second question is on the SME segment, can you give me some contours about the typical SME loan, yield, tenure, ticket size that would be very helpful?

Rohit Gupta: Yes, our average yield on the SME is between 18% and 20% and tenure we are restricting ourselves between five and seven years because there is lot of pressure and demand from the customer side and the industry we are still doing between the tenure between 17 and 15 years kind of product but seeing what has happened and going forward we do not want to go beyond tenure of seven years and going forward we want to be within five to seven years of tenure.

Dhwanil Desai: The end use for this SME loans when the tenure is five to seven years, is it to put up some kind of a capex for the business owners or is it something else, what is the end use for the money that you disburse to attempt?

Rohit Gupta: First of all, we are not typically SME or micro SME, so we have to understand our profile of the customers, they are small Kirana stores, may be garment stores, small restaurant, Dhabas, workshops, saloons, wholesale vegetable providers, so these are the kind profile of the customers. Definitely whenever we discuss it is for their business use but you are not able to control the end use so partially it goes towards business expansion and partly it goes towards may be paying off their unorganised loans from the unorganised sector or may be creating any additions in his existing house, or purchasing some another residential piece, it can be mix or both. So, everybody will say that we are giving for the business purposes but nobody is ready to take in tranches, none of the industry player is giving tranches so whenever you give a single disbursement of 3 lakhs, 5 lakhs, 7 lakhs you cannot control. There is no mechanism where you can control. We definitely monitor those unused but the controls can either happen if we do milestones or tranche-based lending so that does not happen in this industry so to say company sense we can say both were business purposes but practically even if we think that 40% to 60% is utilised for business it is good enough for you even if he is paying off his higher cost debt informally that also is helping you.

Dhwanil Desai: But Sir I think if we do not have the control on the end use of the money that you lend how do you derive the confront and repayment side, is it the cash flow-based assessment that helps you to derive comfort on the repayment of that money, how do you think about that?

Rohit Gupta: I will give the line to Chandan also, definitely we drive are comfort from the cash flows, from the existing business he has, what he is proposing to use additional money which we are lending, the only cash flows are we have very cash flow-based lenders. The only prime most are what we see the cash flows from existing business and collateral is an additional comfort which we take and that is mostly our residential property. I would think Chandan will explain little more on this side.

Chandan Kumar: If you talk about the comfort the end use, the end use that Rohit has rightly mentioned but it is tough to monitor while our assessment we generally propose that most of the end use go towards the business itself and 90% of the cases and in 10% of the cases we assume that it could be for other purposes too but the main purpose is to getting our EMI back that is based on the cash flow itself whether it is a business purpose or for other purposes itself the main flow or main thing is that you are getting enough cash flow from the business that would suffice to service your EMI liability.

Rohit Gupta: None of in this segment who are doing 3 lakhs to 5 lakhs kind of a loan, nobody can control end use through their learning process.

Dhwanil Desai: Yes, I get that point. I mean how that happens in microfinance and lot of other micro SME segments, almost in everybody equals what they claim?

Rohit Gupta: Physically we are micro SME lenders. We are not an SME lender because SME is a little too big definition even a company doing up till I would say 5 Crores to 10 Crores can come into that but our segment is a micro SME borrowers based in Tier II and Tier III cities and that to on the outskirts of the cities because of the IRR where we earn so that is where we want to create our niche and our domain knowledge while keeping ourselves into only segment so we have chosen ourselves to be into this micro SME space and education loans only so lot of discussions happen that why do not we move ourselves and move into ladder which is you get much more data, who are GST compliant so we thought as a smaller company we have to build our niche and the domain knowledge in one or two segments only and as for us we are able to prove ourselves that in a high IRR segments if we are able to build our domain knowledge and niche in that segment so I think we will be little different and cautiously we have chosen this space.

Dhwanil Desai: That is very helpful and lastly any kind of warming up you are seeing in the lending environment in terms of lenders, willingness to start the talks of kind of disbursing more money and you have done reasonably well in terms of your credit quality and everything, collection everything. So, any kind of green shoots are you able to see from your discussions with lenders?

Rohit Gupta: Definitely, we have been getting feelers from lot of lenders during last three to six months. There are two primary things. First, if the cost of borrowing what we were getting in the last one or two months now, I think the liquidity position has improved, earlier what we were being offered or cost including all expenses that were not less than 13.5% to 14%. Now we are getting figure that we may be able to borrow between 12% and 13% and now we are looking for those relationships. Secondly, we wanted to go for by rating review also that is happening and I think at the end of this month that will also come and from CRISIL and we thought that we will also add value to our prospective lenders and thirdly we wanted to improve our SME mix. So, people, lenders see real state from outside and say it is a very tough segment and in spite of we showing are all our books and every account, still they have a little, and they say that we have been cautious on this segment. So, all this mix will also improve in six to nine months, at the same time we will start looking for new relationships even with the smaller amount and for us if we want to improve our mix towards SME, we do not need fund for next six to nine months. Otherwise, what we will be doing, we will just be keeping that funds ideally and having a negative carry. That has been the reason and definitely if we are able to improve or grow our SME business and come on to the matrix which we have planned for raising funds for us in future should not be a challenge. For us, we are sitting on a very, very strong capital adequacy which is 70%. So, we raised 145 Crores out of which we have repaid more than 40 Crores and even that still we are sitting on unutilized limits of around 25 Crores to 30 crores. So, our cash flows are between 15 Crores and 20 Crores every month. Wherever our SME disbursement has not crossed 4 Crores to 5 Crores during six to nine months which is not of good, where we are in a weak point or you say which we feel ourselves we have not performed good and going forward our focus is to improve the disbursement with the existing branch network of 8 Crores to 10 Crores and the day we start doing those targets, we will be increasing our confidence also. So that is our strategy.

Dhwanil Desai: Okay, great. It was very helpful Rohit. Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

Ankit Gupta: Thanks for the opportunity again. I think on the SME strategy front, we started from north and then we moved to Rajasthan and Gujarat but now in our presentation we have mentioned that we want to grow majorly in Gujarat side. So, any reasons why we do not want to grow much in the Northern India?

Rohit Gupta: Very frankly our pain point has been north maybe due to certain in the starting, we have started our operations from north and the two senior people who were there at that time started few things, policies were not formalized fully or secondly, may be the team was not good but as a whole, we see that credit culture is little weak in north as compared to, our portfolio is very good both in terms of Rajasthan and Gujarat and the second strategy which we have changed in our SME business during the last 10 months is to grow in a cluster form because as a smaller company we may not be so big to increase the pressure from day one the whole of the state and our product is more meant for Tier III, Tier IV cities, small towns and territories and outer part of the Tier I cities. So, we want to grow cluster. We are in a district. We go into tehsil and cover that full district then go into the second one which we have started doing hub and spoke location where the spoke locations we will mature and achieve certain price, we will open a full-fledged branch there. So, instead of our earlier say strategy by previous which we had initially, my opening branches in bigger cities now will be moving into smaller cities and a cluster approach. So, cluster approach sometimes helps. If some attrition happens in any certain branch, the immediate branch, which is 25 km to 30 km away helps us as a strong support function. So, with that strategy in mind, your presence is felt in that district also. If you are present in that district and tehsil, we are able to create more presence than having one branch in a bigger city where your presence will not be felt. So, that is also one thing which we want correct ourselves which were little initially the business **(inaudible) 47.09** opened branches in bigger cities. Now we are correcting ourselves by opening spoke locations, maturing those spoke location and forming a cluster within a district.

Ankit Gupta: In this segment we will also be competing with microfinance companies because they are also looking beyond micro loans and are also getting into 3 lakhs to 5 lakhs, 5 lakhs to 7 lakhs kind of loan category. In terms of competitive intensity, how do you think what are the major competitors in a city that we operate on?

Rohit Gupta: The major competitor HDB, you will always find in few other pockets, AU is also coming up but definitely they are not in that segment, in Rajasthan we are having competition from Finova and in few of the pockets it may be may IIFL. So that is our major competitors, few loans where we are competitive from Indian Dhruv Finance, Patna and ICICI also.

Ankit Gupta: Microfinance companies are not competing in this segment, in these 5 lakhs to 7 lakhs or let us say relatively larger ticket size loan for them?

Rohit Gupta: No, we do not see any competition from microfinance companies, reason being that they have a different kind of business model that they are operating. Actually, the microfinance companies majorly focussing on the SMG or JLV kind of loan structure. Now if we talk about the retail loans, we are majorly focussing on secured retail loans. Microfinance companies generally doing the FMCG, JLG or kind of unsecured agri loans. We are giving 1.5 lakhs to 2 lakhs or may be 2.5 lakhs to 3 lakhs to a person who are existing microfinance borrower. So, the good borrows in that segment, they are giving little higher limits and mostly unsecured and unsecured is little easier to grow but we see that there are little more challenges in the unsecured space as compared to the one we are. So, we really just want to remain. Our unsecured space will be on the educational side, rather SME will be totally secured one.

Ankit Gupta: Last question on this issue of loan against security, can you just briefly explain what is this issue on that loan that they have given?

Rohit Gupta: LTVs are not more than 50% in any case. Normally, we remain at 40% in the case for customer it is very good, we may go up to 50% to 55% and every deal will be less than 45%.

Ankit Gupta: Thank you so much.

Moderator: Thank you. The next question is from the line Shankar Dutt who is an individual investor. Please go ahead.

Shankar Dutt: Good afternoon Sir. Sir it is good to hear that we have been able to form new ventures with the other lenders and we are getting some encouraging response now. Sir have we got any of these loans incrementally sanctioned or smaller amounts in the last few months?

Rohit Gupta: Shankar, we have just started looking up. We have the few proposals working on and we are waiting for our rating and after getting rating, we maybe finalizing one two or three deals and even we have also started looking for scrutinizing of existing book, which we are in discussions with one or two lenders. So, the first thing that we are looking at is our rating which should happen within the next 10 to 15 days and after that it may help us to negotiate a little better rate, so that has been the reason that we have been waiting not borrowing during last two three months.

Shankar Dutt: Sir, second question is regarding builders' loans segment, so this segment as I understand is relatively stable that the collateral values reasonably stable? Why does this segment is it difficult for this segment to borrow directly from the buyers and why are the buyers are not interested in lending to those particular segments?

Rohit Gupta: That said always we are reluctant because in that segment we lend from the perspective of the project. We see that the project has a certain value. He has put his x amount of equity into it which is normally 50% to 70% so we lend only 25% to 40% of the project value whereas the bankers will see his personal data, his personal balance sheet, his income which they may not be showing in their books, they may be having loans from friends and relatives which the bankers may feel normally it is you can say borrowing his own money from his family and friends which bankers perceive them as loans so our charges on the project we see from that side and now two or three companies have also started looking into the space which we are in, which we were not there like Hero FinCorp, DMI they are also looking at the same space. The only factor that why we are not able to grow or increase our AUM dramatically two things, first this segment is little reference checks, as we are doing because we do not have too much liquidity and we are getting transactions, we want do few transactions which we are getting on our rates if we just want to a little bit aggressive we come down as I told in last one or two conference call also. The moment we want to grow and their liquidity position improves we reduce our rates by one or two notches to 100 to 200 BPS. We can increase our market share and the AUM. Secondly, overall the margins have come down which hopefully when I think the economy improves, the margins on the builders will also improve and that will also help us to grow a little better. One thing is very good in this segment that even if the loan goes into technical NPA it will not be a lost account because we have a very strong and stable collateral to fall back so where loss of even interest will not happen if we have to go through the recovery process.

Shankar Dutt: Sir finally the last question that I have is regarding the operation of our branches so we have 18 branches opened till now so how many of them are profitable or in other words how long does it take for the branch to become profitable in its own stride?

Rohit Gupta: Normally, we are planned that branch will become profitable after six months from the date of opening which normally where we have planned at every branch where typically three to four FMs should be doing 16 lakhs to 18 lakhs kind of a business but that has not been the case, still we were not able to achieve those desired productivity levels and there were few gaps in that which we have slightly improved and felt by improving the building up the policies and procedures around and the operating system has become stable and we have revamped our certain teams in certain pockets of North India so till date our productivity levels was not what we desired and hopefully those levels should come in next six to twelve months and till now barring few branches the other may be at breakeven or may be small nominal losses.

Shankar Dutt: That answers all my questions. Thanks. Wish you all the very best for the upcoming year.

Rohit Gupta: Thank you.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to the management for the closing comments.

Rohit Gupta: I think I will like to thank all of you and so may be few people were surprised that why we are doing a conference call at this time. It was just to contain that we will be coming back to our investors after six months and wish you all a very Happy New Year and hopefully we will be seeing little better times what we have seen during last twelve months as an industry and as a company also. Thank you very much.

Moderator: Thank you. On behalf of Antique Stock broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.