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INDIA

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Day 3: India Financials Conference 2020 - Key takeaways

Day-3 of ICICI Securities India Financials Conference 2020 had more enriching conversations as we had a wide gamut of voices and perspectives from diverse sub-segments of financial services. The scale on day-3 was almost twofold with participation of 19 corporates of various genres including banks, NBFCs, gold financiers, insurance entities, credit cards, AMC and wealth management. Besides, we hosted four experts in digital payments and real estate space.

Today, we hosted Mr. Anirban Mukherjee, CEO of PayU India, one of the leading merchant payment platforms in the country. Mr. Mukherjee is of the view that online payments are growing very rapidly and will continue to grow faster. On big tech giants, the company believes the consumer payments landscape is highly competitive and unlikely to be a winner-takes-all market due to curbs on market share imposed by the regulator. Specific to PayU, telecom and utility payments were among the fastest growing segments during lockdown.

Another entity on the payments side was Fino Payments Bank; we hosted its MD & CEO Mr. Rishi Gupta. Mr. Gupta highlighted the company's DNA of building a differentiated (alternate banking), asset light, low cost, profitable business model with merchants as the core focal point. 3S strategy – of scale, speed and security – to touch a million customers reinforces confidence in its market positioning.

On the transactions side, we hosted Mr. K Srinivas, MD & CEO, BTI Payments, an entity promoted by Banktech Group of Australia with 51% stake. BTI is a leading white label ATM operator with a network of >7,000 ATMs spread across 14 states with ~90% in semi-urban and rural areas. Company believes there is a huge opportunity in semi-urban and urban areas. regions for white label ATMs and expects another new 100,000 ATMs in these areas over the next five years

On the real estate front, who better than Mr. Anuj Puri, Chairman, Anarock Property Consultants to share the top-down as well as bottom-up feedback. He is of the view that the overall sentiment for the real estate sector has improved considerably as we headed into the festive season from October compared to the mood at the beginning of the pandemic in March. While the office market has been the most resilient among asset classes, the residential market is showing green shoots of recovery while retail consumption is gradually getting back on its feet.

In terms of corporate (financiers) feedback, the narrative seems to be getting more confident on growth as well as asset quality with the passage of time. Banks are hopeful on incremental disbursements growth in H2FY21 and expect the current MoM improving trend in collections to sustain. Moreover, restructuring requests across the board are relatively few for now, hence manageable within the provisioning buffer created till date. Cost optimisation was reflected, though banks are expecting some uptick as activity levels move back to normalcy which would trigger variable costs directly linked to business.

After enriching and extremely insightful first three days, we are keenly looking forward towards the last day of our conference, wherein we will be hosting another four experts and more than 10 corporates.

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Disclaimer: I-Sec doesn't cover companies for Research which are categorised as "Unrated/Unlisted". For the experts, summary is purely based on the discussions held in the conference with respective industry experts, and is only for your ready reference.

Expert Access – Mr. Anirban Mukherjee, CEO, PayU

We hosted Mr. Anirban Mukherjee, CEO, PayU

Key Takeaways

On PayU

- PayU is one of the leading merchants payment platform in the country serving ~600k merchants in India and has best-in-class tech platform which has ~2.4% higher success rates than industry
- ***Payments is PayU's largest business – it does US$30bn of annual processing volumes and this business is EBITDA positive.***
- ***Overall, market size would be in the range of US$120bn-1250bn and this market can scale up to US$600bn over the next five years.***
- In payments, PayU bought a company called Wibmo, a digital financial security firm which processes digital payments on the banks platform.
- PayU believes that for making more and more small and medium businesses (SMB) opt for digital payments, they need to be provided with one platform, wherein they can be connected with digital savvy Indians.

On opportunity size

- Payments market in India is expected to grow at a rapid pace of 25-30% for the next 10 years.
- All the large sized offline merchants are on digital platforms today.
- In-store, government payment and bill payment segments are also growing rapidly.
- Currently, retail GDP is 15-20% digitalised; same is expected to increase to 50% going forward.
- Digital credit is expected to see massive growth going forward.

On digital payments

- Payments is a tool to get stickiness of consumers and then monetize using cross-sell and lending.
- ***There are 30+mn merchants in India, but only 5mn have POS machines & 10mn accept digital payments (via QR etc.)***
- ***Online payments are growing very rapidly and will continue to grow faster. Beyond payments, new product creation and distribution is also a large opportunity***
- There is very low penetration of products namely digital payments, credit card penetration and consumer credit penetration in India as compared to developed countries.
- ***For Payu, telecom and utility payments were among the fastest segments for PayU during lockdown***
- ***PayU expects digital payments in India to grow to USD 3tn by FY30***

- Bank themselves are also launching digi payments app like YONO by SBI, PayzApp by HDFC Bank
- ***There is a surge in contactless payments driven by social distancing norms***
- ***Currently, e-commerce is only ~5% of total retail sales, while ~50% is cash on delivery***

On players in digital payments space

- ***Tech platforms like GPay, PhonePe and Paytm have grown rapidly on the back of heavy promotions and UPI platform.***
- ***Consumer payments landscape is highly competitive and unlikely to be a winner takes all market.*** Despite major tech giants in this segment, there is limited customer loyalty and stickiness
- ***As long as UPI market remains open, there won't be a winner take all. Moreover, NPCI is very clear that no single player can have more than 1/3rd share and hence no single player can dominate the UPI transactions market.***

On small and medium business (SMB)

- SMB segment has most number of players competing for market share.
- ***SMB segment for both offline and online channel is very profitable and growing rapidly which will create large profit pool in the long term.***
- Of the total 5mn SMBs, there is hardly digital adoption beyond 1-1.5mn.
- Challenges in SMB segment include, lending can't be done to them from day 1 as there is very less data to offer any lending to them. One thing which can be done for them is to offer complete digital platform which will enable them to run the business efficiently.

Expert Access- Mr. Rishi Gupta, MD & CEO, Fino Payments Bank

We hosted Mr. Rishi Gupta, MD & CEO, Fino Payments Bank

Key Takeaways

- **Journey over last 3.5 years:**
  - Fino concentrates on Bharat ecosystem. Banking credit is a very low number in rural segment and from all parameters rural pop gives a big opportunity for Bharat as an ecosystem.
  - Looking at accessibility, insufficient network, travelling, not so robust technology access, opportunity lies in digitization of small value transactions.
- **Genesis of alternative banking channel (ABC):**
  - Convenience banking at doorstep,
  - Stimulus on digital transformation,
  - Cost effective and service oriented technological solutions for more than 50% of Indian population.
- **Merchant as a banker:**
  - Locational resilience as merchant is embedded in local community
  - Additional income through banking services (fee income)
  - Ready setup: Minimum on boarding, no need of separate infra
  - Equipped for cross sell products
- **Payment banks is differentiated bank:** Operating on a smaller ticket size without involving any credit risk by promoting digital, paperless and cashless banking across country.
- **FINO DNA:**
  - Focus on Rural India and an asset light low cost merchant model against traditional Branch Banking.
  - Network of 2.75L+ existing merchants – growing at 13k per month – plans to take in to 10L in the medium term (1 merchant per 1000 people in next 3 years)
  - 54% of customers are millennials
  - 1st profitable payments banks within 2-3 years of commencement of business. Profitable in March 2020 and continues to be so in H1FY21.

- **Focus and strategy**
  - The company focused on 3S strategy of speed, scale and security.
  - Products offered: Money transfer, cash withdrawal, CMS, cross sell-insurance, bill payments.
  - The vision of the company is to become a focus points for lot of merchants – it is already in the process of tying up with ecommerce players, some of the other physical companies that sell products - idea is to leverage merchant payment system as much as possible.
  - Most of the merchants who come on board they don't leave the network but some may become inactive. Currently, 65-75% of its customers are active in a particular month.

On remittances

- **Remittances:** In terms of recovery North has recovered more than west. Bombay, Gujarat recovery is slower. In South Telangana, AP, Karnataka recovered faster. In October it is seeing 90% recovery in remittances. In March, it should be 100-110% of pre-Covid levels.
- Revenue stream across remittances will contribute to 10-15% of overall revenue.

On lending

- Credit is something that is need of its customers and merchants - however, it will offer credit through partnerships. It has launched credit to merchants with a tie up with NBFC and also distributes gold loan in tie-up with banks
- Credit is never going to be its mainstay business model.

Conversion into small finance bank

- As a payment bank, there is no hurdle to convert into small finance bank. At right time it will apply for conversion.
- It will never be a typical small finance bank. Rather it will be completely digital in terms of data and disbursements that it would be doing.

Expert Access - Mr. K Srinivasan, MD & CEO, BTI Payments

We hosted Mr K Srinivasan, MD & CEO, BTI Payments

Key Takeaways

On BTI Payments

- It is an entity promoted by Banktech Group of Australia with 51% stake
- BTI is a leading White Label ATM (WLA) Operator with ATM base of 7,000+ ATMs spread across 14 states & ~90% in semi urban and rural areas
- Its strategy is to further deepen its presence in these 14 states, rather than going widespread across the country
- ***BTI has 6,000 ATM in January and by October, BTI crossed 7,000 ATMs despite the pandemic.***
- Medium term target is to build 10k ATMs from currently 7k, which will make BTI the second largest rural ATM brand and the largest white label ATM operator.
- ***BTI is about 28% market share in white label ATMs and 43% by transactions.***

On cash & ATM transaction volume & growth

- Cash in circulation in India has been growing at a CAGR of 12% from Mar'16 to Oct'20. Digital payments are growing but on the contrary, cash is also not dying.
- ATM transactions have also grown at a CAGR of 14% over FY16 to FY20 while white label ATM transactions have grown growing at 31% CAGR
- In terms of penetration, India has a lot of scope for ATM penetration as compared to other countries
- There is a huge opportunity in semi and urban regions & white label ATM operators lead employment.
- Overall, industry-wide, BTI believes that there can be another new 100,000 ATMs in semi-urban and rural areas over the next five years

On ATM transactions revenue

- For WLA operators, there is very little dependence on banks for revenue.
- BTI gets their settlement and revenues directly from NPCI; twice a day at ~10AM and ~6PM.
- ATM owner is being paid Rs 15 per cash transaction and Rs 5 per non-cash transaction for their ATM being used by non-customers
- RBI committee has recommended revised rates at Rs 18 per cash transaction and Rs 8 per non-cash transaction
- For the industry, cost per transaction is slightly higher than the revenue per transaction.

- 75% transactions are cash transactions, while balance are non-cash transactions resulting in average revenue of ~Rs 12 per transaction
- BTI has 5mn unique customer using ATM and unique customers per ATM is also rising.

On ATM usage & profitability

- For white label ATM, about five years ago, customer usage was ~3.5 times per month which has now increased to 5 times per month
- A new ATM is becoming EBIDTA positive in just two months as against 12 months, which used to be the case a few years ago.

On cost of ATM for urban vs. rural

- In urban area, rental cost is high as compared to rural.
- However, in urban areas, servicing cost is lower than rural areas. This is because company can refill ATM every day in urban but in rural It become less economical to refill every day.
- ***Overall, cost of ATM in urban and semi-urban/rural area is largely similar and it is largely an optimization between rental and servicing cost.***

Other highlights

- ***Borrowing cost for BTI is linked to MCLR of various bank and they borrow from nearly 8-9 banks wherein the borrowings cost is in the range of 6-8%***
- On consolidation opportunities to acquire scale, management says that there are smaller banks who find it uneconomical to run ATMs. BTI can acquire these ATMs and run those ATMs by shifting it to suitable places based on their strategy.
- On an average, company needs Rs40-45mn working capital per day
- Net worth requirement is Rs 1bn as per RBI while BTI's net worth is Rs 1.5bn

Expert Access - Mr. Anuj Puri, Chairman, Anarock Property Consultants

We hosted Mr. Anuj Puri, Chairman, Anarock Property Consultants

Key Takeaways

The overall sentiment for the real estate sector has improved considerably as we head into the festive season from October 2020 onwards as compared to the mood at the beginning of the pandemic in March 2020. While the office market has been the most resilient among asset classes, the residential market is showing green shoots of recovery while retail consumption is slowly getting back on its feet.

Residential Segment

- New launches and sales made a decisive comeback in Q3CY20; recovering 79% and 65%, respectively from the pre-COVID levels of Q1CY2020.
- Steep reduction in mortgage rates, stamp duty cuts in markets such as Mumbai, regained confidence and builders' flexibility to negotiate rates is driving sales in the property market.
- There is positivity on the onset of festive season. Good sales recorded in 2020 Navratri. Diwali sales are looking up.
- Need for larger and functional homes have emerged. Ready-to-Move Inventory (RTMI) is in demand. There is a rise in demand for plotted developments in the peripheral areas of Tier I and Tier II/III cities.
- Consolidation in the residential segment to accelerate and continue over the next 4-6 months with leading developers' sales holding up better compared to the broader market.
- SWAMIH Fund is gaining traction, many other last-mile funds to address stuck projects. Under the SWAMIH Fund, 123 projects have received funding approval up to October 2020 across 81,308 units with sanctioned funds of USD1,620mn.

Commercial Office Segment

- New leasing is facing difficulties in the short-term - CY20 net absorption may be around 23.5msf as compared to 40msf in CY19. Expect CY21E absorption to be over 30msf and CY22E may see office segment recovering strongly. Supply to also be delayed.
- Do not see office rentals falling in peripheral/suburban markets in Tier I cities as they are at Sub-dollar rentals continue to make office sector lucrative in India as compared to other developed and emerging markets.
- Consolidation of offices by occupiers may no longer remain the key theme. Rising focus on decentralization to ensure business continuity.
- New layouts have emerged as per social distancing norms leading to rise in per capita space allocation and higher space requirements.
- A blended Work-from-Home (WFH) policy may be the new norm

- ~98-99% of office rental collected by listed players in Q2-Q3CY20 is positive

Retail Segment (High Street and Malls)

- Retail demand is back selectively with South Indian markets seeing better performance as compared to North/West India in Q3CY20. While footfalls in Q3CY20 were just 25% as compared to pre-Covid levels, consumption was at ~50% of pre-Covid which illustrates that spend per customer has gone up as only genuine customers are going to high streets/malls.
- Tier 2 & 3 are recovering faster than Metro cities as there is less fear and spread.
- The festive season has seen footfalls and consumption improve further from October 2020 and November 2020 trends are also encouraging.
- People continue to prefer high streets over malls for shopping in the short-term.
- Grocery & essentials and electronics business has recovered. Luxury products' sales may take some time to comeback.
- Demand for new retail spaces has also kicked-off.

State Bank of India (BUY, CMP: Rs239)

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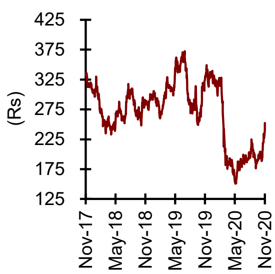
Price chart



We hosted Mr Swaminathan Janakiraman, Dy. Managing Director and Mr. Misal Singh, VP – Investor Relations

Key Takeaways

On RoA trajectory & performance

- NII story is playing out well as NIMs further gained traction benefitting from incremental higher growth in retail credit (corporate book actually shrunk QoQ), lower NPL drag (interest on pro forma slippages not reversed) and sharp cut in deposit rates. Interest expenses grew by only ~2-3% despite deposit growing by 14-15%. NIMs are more likely to settle at current levels over medium term - going forward, deployment of surplus liquidity and resolutions may offset any downward pressure on NIMs.
- During the past three years as performance was impacted by corporate stress cycle, RoA was relatively subdued compared to its historical long term RoA average of 0.8-1.0%.
- Inferring from the operating metrics trend, the bank seems to be gradually moving towards the long term RoA range in the immediate and surpass its long term average RoA in near to medium term.

On dichotomy between ground reality and collection efficiency

- ***Given that a large part of SME business is unorganised and has no access to formal credit lines, the perceived pressure in the SME segment is not reflected in industry-wide banks collection efficiency number.***
- With respect to SME at the industry level, 50% SME businesses are self-financed, 35% finances from unorganised sources or through microfinance route while only ~15% of SME financing is done via banks.

On YONO capability and analytics

- ***YONO is not just a digital bank, but a financial superstore.*** Combined with analytics team and with capability of YONO, bank is able to offer both upsell (top up on existing loan, balance transfer on home loans) as well as cross-sell.
- ***Product per customer is 2x on an average.*** This is because bank has customer base in excess of 450mn and hence, product per customer on an average comes out to be very low. Today, the bank is using a lot of manpower to reach customers in tier-2/3/4 cities. With digitisation, banks should be able to reduce costs and attain financial inclusion at a larger scale.
- ***On digital partnership, bank is open to either partner or collaborate with fintech. It sees fintech as a partner rather than a competition.***
- On digitisation, the share of digital transactions stands at 93% and is still improving. The power of digitisation is immense. ***For example: During the past 6-***

7 months, it sourced US$1bn worth of personal loans digitally, which could have otherwise taken long to be sourced via branches.

On credit profile

- Retail segment has been a key loan growth driver over the past two years and will continue to drive the overall credit growth. Credit profile in retail segment too is comforting – 94% of Xpress credit customers are government/defence employees whose salary levels have not been hit due to the pandemic. Also, in home loan segment, 50% customers are government employees, 20% are from well-rated corporates and 30% are self-employed customers with high creditworthiness.
- ***As of now, approvals and credit enquiries are above pre-Covid levels on the retail front.*** SBI is approaching salary-backed loans in a focused but a risk-mitigated manner. ***It expects overall loan growth to remain around 8% with some upside risk.***
- ***Retail loan origination via YONO in H1FY21 was 38%.***
- Bank would like to get back very strongly in agriculture and MSME.

On capital

- Management said capital is sufficient to manage near-term growth as plough-back of profits further shore up capital adequacy. It raised Rs199bn in tier-2 (Rs160bn) and AT1 (Rs40bn) capital at best-in-class rates during the quarter. By FY21-end, tier-2 capital is expected to reduce to ~2% (from 2.8% currently) on account of redemption and exercise of call options.

On ECGLS

- About 25% MSME customers didn't opt for support from ECLGS, 25% opted partial disbursements towards ECLGS, while 50% opted ECLGS.

HDFC Life Insurance Company (BUY, CMP: Rs661)

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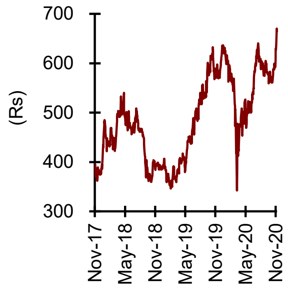
Price chart



We hosted Mr Niraj Shah, CFO and Mr Kunal Jain, head IR, HDFC Life

Key Takeaways

- **Bancassurance outperforms (with large impact of HDFC Bank) in Q2FY21, non-promoter group bank channel will be incrementally important across the industry.** In terms of individual APE, bancassurance and agency channel registered growth of 38% and 8% YoY, respectively, in Q2FY21. HDFC Bank remains ~70% of the banca mix of HDLI. Management indicated green shoots in other channels in Q2 (ex-HDFC banca channel grew 6% in Q2FY21).
- **Reinsurance cycle will inhibit any major price cuts in near term.** Reinsurance rates in India remained low for a long period of time compared to global rates. Reinsurance rates are expected to go up in medium to long term perspective. HDLI has increased protection pricing only driven by actuarial judgements. This is a mezzanine strategy between IPRU Life (intended to fully pass reinsurance rate hikes) and SBI Life (no increase in protection prices yet).
- **Guaranteed return plan will continue to be carefully managed within ALM framework.** For businesses already written, policies have a very low interest rate sensitivity. HDFC Life ensure proper cash flow matching which allows them to service their obligations effectively.
- **Operating performance remains disciplined but some cost savings can get reversed with growth:** 13th month persistency ratios for individual business improved from 86% in H1FY20 to 88% in H2FY22 (benefits of guaranteed savings that should continue). 61M persistency ratio remained steady at 53%. Management indicated that persistency in ULIPs has been restored to pre- Covid levels. As on H1FY21, solvency ratio stood at 203%. Total expenses to Total premium stood 15.2% in H1FY21 vs 19.2% in H1FY20. Some cost savings will get reversed with expected growth.
- **Balanced product mix remains the strategy; new products to strengthen the product mix.** Based on individual APE, ULIP, par and non-par savings remain at 23%, 33% and 30%, respectively, of the mix in H1FY21. There is a rise in par mix (new product *Sanchay Par Advantage* has higher margin profile because of higher duration).
- **High single digit APE growth and a VNB growth is a realistic possibility in FY21.**

SBI Cards & Payment Services (Unrated, CMP: Rs815)

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We hosted Mr Nalin Negi, CFO, Ms Aparna Kuppuswamy, CRO and Mr Girish Budhiraja, CMO

Key Takeaways

On asset quality and restructuring

- Proforma Gross NPA would have been 7.46% (net NPL 2.7%) - Rs17.68bn ***including Supreme Court standstill accounts of Rs7.62bn***. It has taken provision on standstill accounts of Rs5bn (at 65%), as if it is regular NPL.
- ***RBI RE - Rs21.08bn (9% of loans) in August*** spread across 2.3L accounts – it has made RBI mandated 10% provisioning on the same.
    - Major segment out of this pool is in self-employed segment (from open market) and it has tightened standards in this segment.
    - The number of RBI RE is as of August and it would have gone up post August.
    - ***Contours of restructuring - SBI Cards came up with 2 plans – 1 year, 2 years extension at the rate of 14% & 15%. Rates comes down then what needs to be paid and that is what helps the customers.***
    - First payment became due in September but large proportion has paid up. If they pay first three instalments it will be much manageable as they know their card is going to open up.
    - ***54% of the customers were good customers with full repayment track record prior to Covid.***
- ***Easy payment plan – Rs1.68 bn – less than 1% of advances - more nuanced – 3 months to 18 months and varies from 3-18 months.***
- Credit risk is impacted by macro-economic risk variable – ***enhanced management overlay (contingency provisioning) by Rs2.68bn created in Q2FY21 – Cumulative provisions of Rs7.6bn (3.2% of advances).***
- ***So on overall stress pool of 17.1%, they seem to be carrying total provision of 9% (including management overlay).***
- Non-moratorium book delinquency is below the pre-Covid level. Stress accounts (RBI RE, standstill etc) is largely flowing from moratorium stock – though lot many people have paid up.

On spends and business origination

- ***Retail Spends in Q2 FY21 have increased by ~50% as compared to Q1 FY21. For October, has seen further growth in spends – significant jump due to festive offers***
- Retail spend for Q2 FY21 is at 90% of pre-Covid (Dec'19- Feb'20) levels. Retail Spends Sep'20 daily average : at ~98% vs Q4'FY20; at ~92%+ vs pre-Covid

- ***Significant leg-up in spends if these customers come out of standstill or RBI RE. It was largely due to opening up of lockdown and some element of pent-up demand.***
- 80-90% of corporate spend in pre-Covid were pertaining to travel, hotel etc – however even in its absence there is a good pick-up in corporate spends (touched Rs470mn per day in September).
- Steadily growing market share – cards in force to 18.7% and in spends has grown to 20.5%. In each of previous 3 months, market share is consistently rising.
- SBI sourcing for new accounts has risen significantly to 58% (from 52% YoY) – however for cards in force it still stands at ~38%.
- ***30% of receivables are towards transactors, 27% towards EMI and Revolver + RBI RE would be around 43%.***
- New accounts volume has increased to 688K accounts in Q2 FY21 compared to 288K in Q1 FY21. New Accounts sourcing in Sep'20 daily average: at ~110% vs Q4 FY20; at ~98%+ vs pre-Covid.

On new to bank and Tier 3 plus customers

- Tier-3 sourcing was higher by 15% points YoY at 57% – most of Tier 3 plus is coming from banca and hence it should behave well. Currently as well delinquency behaviour of banca sourced accounts is relatively better.
- ***New to bank customers were higher by 5% points to 23%.***
- SBI Cards market share in in new to credit at 31%, new to credit card is 41% and in Tier 3 plus customers is 37% - way higher than average market share of cards in force.

Strategic initiatives rolled out for differentiated value proposition

- Google Pay – contactless payment - partnership is very important – Tap & Pay, Scan & Pay and online payments
- Has tied up with Rupay and IRCTC to launch IRCTC Card on Rupay platform, first cobranded card on Rupay network.
- Has tied up with American Express to augment the Premium Portfolio
- SBI Cards is now available on all payments platform - "ghar ghar khushiyan" contactless awareness campaigns

ICICI Prudential Life Insurance (BUY, CMP: Rs453)

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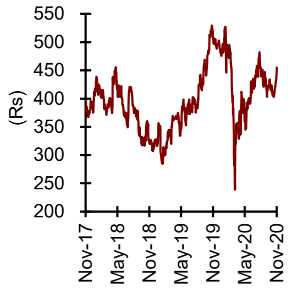

We hosted Mr Satyan Jambunathan, CFO and Mr Mr Mukesh Boobana, VP-IR, ICICI Prudential

Key Takeaways

Outlook

- IPRU maintains target of doubling VNB by FY23. However, the company will try to maintain flattish VNB in FY21. This would involve 13% VNB growth in 2HFY21 having seen VNB decline of 15% in H1FY21.
- Long term protection mix can be 25% with ULIP and non-linked savings at 50% and 25%. However, IPRU does not have a product mix target.
- Even with normalisation of growth, IPRU is confident of maintaining present cost ratios

Key commentaries

- Levers of growth include bancassurance tie-ups, which too will incrementally improve non-linked savings mix and revival in ULIPs. IPRU has made tie-ups with IDFC First Bank, Yes Bank, NSDL Payments Bank and IndusInd Bank in H1FY21. This will aid volume growth, especially in the non-linked savings mix as ICICI Bank continues to abstain from traditional savings products. However, there are competing players like HDFC Life, Tata AIA, Max Life in the said banks. IPRU also has been able to become the leader in IDFC first life in terms of share of bancassurance sales. IndusInd tie up is relatively new.
- Strong performance in non-linked savings in H1FY21 has been mostly due to better efficacy of distribution with time.
- Agency hiring has reached the level of last year in end of Q2.

HDFC Asset Management Company (Unrated, CMP: Rs2,428)

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We hosted Mr Piyush Surana, CFO and Mr Simal Kanuga, Head sales-client funds of HDFC AMC

Key Takeaways

Opening remarks

- Generally, there is negative correlation between market movement and fund flows in the short term. Gross flows in industry remained similar but redemptions have increased.
- Debt and liquid flows remained healthy.Equity flows in industry have moved lower marginally due to lower income uncertainty.
- As per on-ground feedback, optimism is returning and closures of SIPs are slowing down.

On loss of equity AUM market share

- HDFC funds saw a decline of 6%, which was higher than the industry and hence, indicating some market share loss. Primarily, loss was due to M2M.
- Secondly, all top 5 MFs except SBI have witnessed loss in market share. Positively, SBI is on-boarding new investors and HDFC distribution channel can benefit from this.
- Thirdly, equity mix of HDFC AMC is 20% in mid and small cap vs 10% of industry. Also, underperformance of small cap and midcap led to loss of market share.

How to improve the fund's performance including new initiatives

- Will be launching dividend fund in near term
- There will be renewed attention towards development of PMS business (have also appointed a portfolio manager).
- HDFC AMC investment style was more focused towards value and growth at reasonable prices. Now it is trying to add style diversity to the overall portfolio to include growth-oriented flavour rather than only value oriented approach. New fund managers are managing 15-20% of equity AUM.
- Flows are subject to fund performance.

Other highlights

- Appointment of Navneet Munot will not change any investment functions.
- Industry average holding period of the customer is 30 months and for HDFC AMC it is slightly higher. Average holding period is increasing due to 1) LTCG, 2) message to 'remain invested' has been well taken by the investor community.
- SIP ticket size has been largely similar in the last 6 months.
- HDFC Bank is an open architecture and hence, it sells whatever is more profitable. Equity AUM of 10% comes from HDFC Bank. In overall AUM, HDFC Bank is 5.4%. Overall, out of total HDFC Bank customers, who have invested in mutual funds through bank channel, 1/3rd have invested in HDFC AMC schemes.

IndusInd Bank (BUY, CMP: Rs850)

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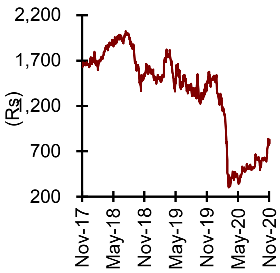
Price chart



We hosted Mr Sanjay Mallik, Head- Strategy & Investor Relations and Mr Indrajit Yadav, VP - Strategy & Investor Relations

Key Takeaways

On collection efficiency

- Overall lending book September collection efficiency (total collected over total demand dues) is at 94.7%. Collection efficiency has improved to 95.5-96.0% as of today; expect collections to inch up further by December.
- Vehicle finance collection efficiency is 94% - with tractors, 2-wheelers and SCVs trailing below the averages.

On restructuring

- ***Restructuring would be low single digit for the bank. As of now, the bank has not seen any meaningful requests from restructuring.***
- ***Moreover, there are certain instances in the corporate book where there could be likely restructuring, but the corporate has not opted for the same.***
- Covid-related restructuring could be from the firm involved in luxury coaches, educational institutes, real estate, hotels etc.
- This restructuring cycle should have better outcome than the previous one for the entire banking system.

On microfinance

- MFI business collection efficiency improved to 93% in October from 91% in September and expects it to cross 95% soon. Sep'20 disbursements stood at 85% of Sep'19 levels.
- ***Fresh disbursements of Rs35-40bn, done during H1FY21, had a collection efficiency of 99.8% under microfinance.***
- As a cautious approach, bank has reduced ticket-size for microfinance loans in H1.

On real estate

- There is stress emerging in two real estate projects consisting Rs5bn exposure; however, both of them are well collaterised and the bank might look for restructuring. Therefore, they will not have any large impact on the P&L in terms of credit cost.

On credit cost

- Bank wants to be very conservative as far as provisioning is concerned and will like to operate at higher coverage ratio going forward. Bank made an additional Covid-19 provision of Rs9.33bn during the quarter taking total Covid provisions to Rs21.55bn (1.1% of loans).

- In Q3, bank will make provisions towards restructured accounts, while in Q4, it will look to create buffers for any contingencies and flatten the curve in FY22 to normalised levels.

On fee income

- Fees has been weak in H1, but a gradual recovery is expected in H2. Probably from Q1FY22, there will be a steady state growth in fee income.
- Robust fee growth of 56% QoQ on account of strong pick-up in retail fees. Bancassurance is a critical component of banks' fee income. Investment banking fees remained subdued due to lower activity. Due to shrinkage of one of the fee income pools, fee income to asset will relatively lower than historical average.

On credit growth

- Mid-teens growth can be expected in next FY with incremental mix tilted towards retail.
- In H1FY21, focus was on balance sheet realignment. Now in H2FY21, bank will focus on scalability. ***Asset growth is coming back – retail segment – especially MFI, vehicle, secured assets. The bank has the ability to grow above industry average growth.***
- Deposit momentum is accelerating, crossed 8% QoQ deposit growth in Q2FY21. Retail TD grew by over Rs80bn - digital acquisition is 2x; physical acquisition is 80% of pre-Covid; 91% FDs were digitally sourced.

Other highlights

- At bank level, total exposure to hotels is Rs16bn of which all is not under stress.
- ***Bank has written-off the entire IL&FS exposure towards holding company and subsidiaries.***
- Bank has been gradually reducing its exposure towards risky assets like real estate.

On RBI's IWG Committee recommendations

- Promoters of IndusInd Bank, even prior to this IWG report have applied to RBI showing intention to raise promoter's stake. With the report indicating the similar recommendations just suggest alignment in thinking across stakeholders.
- IndusInd Bank as highlighted in the past that it has been closely evaluating opportunities in para banking space – currently, it has invested in non-banking financial services segment up to 20%. Various structures that can be evaluated include some stake or JV as minority partner or all out subsidiary (under NOFHC).

Muthoot Finance (Unrated, CMP: Rs1,156)

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We hosted Mr. George Alexander Muthoot, MD, Mr. George Alexander (Jr), ED, Mr. Eapen Alexander , ED, Mr. George M Jacob , ED, Mr. George M George, ED, Mr. Alexander M George, Wholetime Director and Mr Oommen K Mammen, CFO

Key Takeaways

On growth, customer profile and branch expansion

- The company had guided for 15% growth in FY20 and achieved 22%. In FY21, guidance is of 15% - however it has already achieved 14% so far in H1FY21 itself.
- Gold loan market has always been competitive and there has been competition from unorganized players, NBFCs, banks etc. However, it enjoys a better brand value, faster turnaround time and effective services that differentiates Muthoot.
- Incrementally, banks have started to push gold loans aggressively but Muthoot has been also been growing too with accretion of Rs50bn in gold loans in the past 6 months. The industry pie of gold lending itself is expanding and hence, despite rising competition, it is confident of sustaining the growth momentum.
- Repeat customers form a large part of the portfolio - In a branch that is more than 5 years old, there are more than 80% repeat customers. There is no service charge, no prepayment charge and interest is on actual numbers of days for which loan is utilised hence there are frequent repeat customers. At present, there are about 5mn transacting customers.
- The company has been opening 100-150 braches every year for the last 4-5 years and plans to open 100-150 branches every year. Typically, a new branch breaks even in a year
- The reliance on CIBIL score prime and super prime customers is relatively low as customers with high CIBIL scores have other financing options at lower cost. Most of the gold loans taken are for working capital needs

On loan tenor and repayment trend

- Typically, 60% of the company’s loans get repaid in the first 6 months, another 30% in the subsequent 6 months while the remaining 10% of the loans go above 12 months. Out of the 10%, around 30% turn into NPAs. Even NPA are more technical in nature and does result in any loss given default as it recovers the principal as well as interest by auctioning gold.
- Average ticket size of loan is about Rs50-55k with range of gold loan being offered is Rs2,000-200,000.

On LTV and yields

- LTV is calculated at the time of disbursing a loan and maximum loan given is 75% of the day’s price. Usually, average disbursal is around 69-70%. The rate of interest varies from 12-22% depending on the LTV and tenor but the blended yield is around 19%

- The company has a better presence in South India compared to other parts of the country. Around 55-60% of branches are in South India. The total number of branches stand at 4,600+ out of which 2,000 are in South India. Tendency of people in south to pledge gold is higher than in North.

Non-lending businesses

- The company had earlier guided to take non-gold portfolio from 10 to 20% in a span of 2-3 years but it has reduced to 9% now given strong growth in gold portfolio. The guidance has now been revised to 20% share in 5-6 years.
- The company has done any lending in the last 6 months in home finance and vehicle finance. The disbursal levels are not expected to reach pre-Covid levels in home and vehicle finance in the next 2-3 quarters and hence the overall non-gold portfolio will be flat
- The collections in Sep'20 were 84% in home finance, 82% in vehicle finance and 86% in microfinance. Oct'20 and Nov'20 are expected to be better.

Other highlights

- They will be able to take cost to income ratio around 5% - won't go much below or above that. Opex is 4-5% of loan asset and they will be able to maintain it at the similar level.

IDFC First Bank (Unrated, CMP: Rs37)

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We hosted Mr. V Vaidyanathan, CEO and Mr. Saptarshi Bapari, Head Investor Relations

Key Takeaways

On RoA trajectory

- With improvement in NIM, uptick in fee income (with higher retail credit growth) and cost to income ratio, the bank aims to reach RoA of 1.4-1.6% and RoE of 13-15% in the next 5-6 years.
- The bank plans to increase the retail book composition to 70% within 5 years and sets the target to take it to 80% thereon.

On disbursements

- ***For the month of September, disbursements were 95-96% of Sep'19 levels.*** Even in festive season, disbursements saw a good traction particularly in consumption loans namely consumer durables, two-wheeler loans and passenger vehicle loans.
- Traction in retail continued to be strong - retail book grew 25% YoY/7% QoQ now constituting 63% of funded assets (including inorganic buyouts)
- Bank continued to consolidate the balance sheet – funded exposure flat YoY/up 3% QoQ. As per the stated strategy, wholesale book is being scaled down - within the wholesale segment, infrastructure loan book reduced further by 27% YoY (down 7% QoQ) to Rs125bn in Q2FY21 and the bank aims to bring it down to NIL in 3-4 years.

Released specific provisioning to create contingency buffer

- Overall bank level – Pro forma GNPA in Q2FY21 reduced to 1.87% (1.99% in Q1FY21) and the NNPA would have been 0.6% (0.15%). Retails pro forma GNPA in Q2FY21 reduced to 0.79% (0.87% in Q1FY21) and the NNPA is steady at 0.41%.
- Bank released Rs8.1bn provision out of the existing provision of Rs16.2 on exposure to a large telecom player and used the same for creating additional Covid-19 provisions.
- Bank sold off its entire exposure through NCD in one of the stressed HFC through secondary market transaction - booked a loss of Rs4.6bn in trading income and released the existing provision of Rs4.6bn.
- With this, during Q2-FY21, the bank has taken an additional provision of Rs14bn towards Covid-19 to strengthen its balance sheet further taking cumulative contingency provisions to Rs20bn (2.21% of standard advances).
- Bank has not received any sizeable request for restructuring (much lesser than 1%) and expects it to settle in low single digit.

Other highlights

- ***Bank has disbursed Rs16bn under ECLGS scheme to MSMEs***
- Bank was initially planning to open 50 branches per quarter, but post Covid-19 and with rapid pace of digitisation, bank has reduced its branch expansion pace.
- ***Any change in senior or middle management team is unlikely in near-term***
- Top 20 depositors concentration has reduced to 12.4% (from 16.9% in Q1FY21).

M&M Financial Services (ADD, CMP: Rs159)

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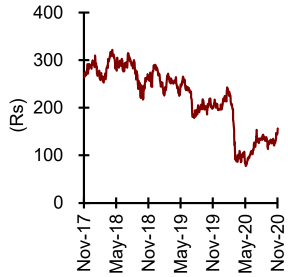
Price chart



We hosted Mr. Vivek Karwe, CFO and Mr Dinesh Prajapati, Sr. VP Group Treasury & Corporate Affairs

Key Takeaways

Opening remarks

- Things are improving on all fronts - be it disbursements, collections, cost savings etc. Sentiments are turning positive and confidence is returning.
- Used vehicle market is seeing improvement on supply side.
- Disbursements were slow in Q1, but they picked up pace in Q2 and disbursements are expected to be quite strong in H2. In some product segments, supply side is choked and not very aggressive. AUM growth is expected to be rangebound at 8-10% - to get back to 15-20% growth story post March.

On NIMs

- Yields are holding on, resorted to storing liquidity (Rs85bn) and carrying cost drags NIMs by 50-60bps. It does see the ability to raise funds from every source and at an attractive price. The company is seeing increasing margins across all buckets.

On collection efficiency and restructuring

- Collection efficiency was 82% in September as against pre-Covid levels of 87%. Normally, July-Aug collections are not better due to monsoon – else would have been at 87-88%. The trend is improving MoM even post September.
- Number of accounts that were unable to pay any installments stood at 0.27mn as of Q2. These were primarily from few segments that have not seen business revival - cab aggregators, school bus, hotel/tourism, heavy CVs etc. that together form 7-8%. ***Many customers from this 0.27mn have started paying their installments.***
- ***So far, the company has received limited request on restructuring.*** For restructuring, the company will understand, assess and then based upon the need of the customer, will decide whether restructuring needs to be done or not. ***Clarity will emerge on restructuring till Q3-end.***

On cost efficiency

- Some of the operating cost will increase in H2 as business normalcy returns.
- Cost containment continues and there is definite savings – variability in business volumes; advertising, legal, BPO services, rents etc are revisited and savings are sustainable.
- Cost is bought down to 2% - can go up to 2.25-2.40% if businesses will grow to 15%. Has permanently shaved off 50bps compared to the recent average of 3% plus.
- Major cost benefit has come from negotiating rents for most of its premises.

On RBI IWG Committee report recommendations

- The recommendation in RBI's IWG report allowing corporate/industrial houses to promote a bank and well run large decade NBFCs with asset base of Rs500bn or more is an interesting development. It will examine the possibilities and matter will be decided by the Board.
- However, it will await final guidelines from the RBI and all contours, guardrails etc that are highlighted.

CreditAccess Grameen (BUY, CMP: Rs743)

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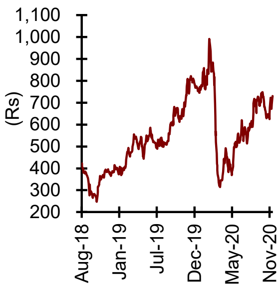

We hosted MD & CEO Mr. Uday Kumar, CFO Mr Balakrishna Kamath, and VP-IR Mr. Nilesh Dalvi, CreditAccess Grameen, at our BFSI conference.

Key takeaways

Collections

- Collection efficiency improving but at moderated pace - Collections numbers are equal or better in Nov'20 vs Oct'20. CAGL recorded 89% collection efficiency in Oct'20 vs 88%/82% in Sep/August'20 respectively. Collection efficiency for MMFL stands at 85% in Oct / 83% in Sep'20. The pace of collection in Oct'20 impacted by lower in collection in Maharashtra, KTK 2-3 districts in Costal area impacted due to heavy rains and few districts in Chhattisgarh impacted due to second lock-down.
- Collection efficiency in Maharashtra stands at 81% for CAGL. It will take couple of more months to normalise. Slower improvement in MH was led by extended lockdown, restrictions on services/ businesses on local transportation. Southern districts Solapur, Sangli, Satara which witnessed floods are facing collection issues. Things are improving gradually and now places of worship has also opened.
- Expect 2.5-3% increase each for next two months and to reach at 96% in all states except MH. MH will take some more time to reach to 96%.
- For CAGL, ~80% of the customers have paid fully, ~12% have paid partially and ~8% are have not paid in Oct'20. However, only ~2.5% borrowers have not paid a single instalments since moratorium.
- Of total non-paying customers at 8% (~6.5% ex GNPA), ~24% has started paying in Oct'20 for CAGL.
- Of total non-paying customers at 7%, ~33% has started paying in Oct'20 for MMFL.
- It expects collections (ex-Maharashtra) to normalise by Dec'20, and including Maharashtra collections to normalise by Mar'21

Capital

- Current CAR stands at 26.4% with Tier I at 25.6%. Post QIP it has increased to 34-35% which will manage growth for next two years on merged basis.

Provision buffer.

- **CAGL** - Total ECL provisions as at Sep'20 stands at ~5.35% of gross AuM, of which standard asset provisions stands at 3.53% of total AuM.
- **MMFL** - Total ECL provisions as at Sep'20 stands at ~4.3% of gross AuM, of which standard asset provisions stands at 2.78% of total AuM.
- Covid related provision for CAGL / MMFL in Q2FY21 stands at Rs0.66bn / Rs0.25bn.

- It expects Covid related credit cost to remain around 3.75%-4%, of which majority will flow in FY21e and some portion might spill over to FY22e. On a steady state basis, it expects credit cost to increase to 1-1.25% from current level of 0.8-0.9%.
- ***Credit cost in FY21E likely to remain at 4% including normal + Covid provisions.***

Disbursements.

- AuM decline during 1HFY21 is contained with monthly disbursements in Oct'20 is up YoY. Currently it is adding 2,000 borrowers per day with ~40-45% new to credit borrowers. For FY21, expected to deliver 10-12% portfolio growth. Does not intend to add any branches in FY21e. Ticket size cap for 1^{st} cycle loan is Rs30,000.

Sustainable profitability

- Adjusted for one-off events like Covid, MFI business will generate sustainable RoA at 4.25%-4.75% with RoE ranging between 18%-22%.

Borrower profile

- ~43% borrowers are unique to CAGL, ~40% will have 1 more lender.

Other highlights

- Margins during Q2FY21 impacted due to excess liquidity on balance sheet and management intends to maintain higher liquidity during current uncertain time.
- Well-diversified liability profile across domestic and foreign sources will be pivotal to CAGL's long term strategy of delivering consistent high growth while operating within the current construct of NBFC-MFI
- Underwriting process is largely same.
- Cost/Asset ratio – In FY21e it should settled around 4.7/4.8% while on steady state level it should remain around 4.8/4.9% level.
- **Had not restructured any loans, but at the end of morat it has extended tenure and kept EMIs same, hence monthly demand will be same going forward.**

Aavas Financiers (BUY, CMP: Rs1,527)

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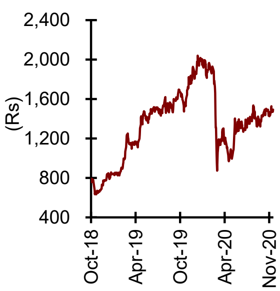

We hosted Mr Sushil Agarwal, MD & CEO and Mr Himanshu Agrawal, Investor Relations

Key Takeaways

On collection efficiency

- ***In terms of collection efficiency, so far November month has been better as compared to October***

On 1+dpd

- ***6.2% 1+dpd has been reached much early than anticipated. The normal run-rate was 5% pre-Covid.***
- ***For calculation purpose, last date of the month is considered for 1 day past due***

On disbursements

- ***Usually incremental disbursements mix is 70% towards home loan & 30% is other mortgage. But for H1FY21, the mix was 75:25 considering cautious stance due to Covid disruption***

On RoA

- Company says that spreads sustained at 5% over the long-term is difficult. But bank has sufficient cushion to contain its opex which should largely offset lower spreads impact on RoA.
- ***Hence, company would be able to sustain its RoA of 2.5% over the medium term***

On credit profile

- ***Aavas would like to maintain growth rate of 20-25% for the next 3-5 years. For this growth, company has sufficient capital atleast for next three years***
- For growth, company works on risk-based pricing and is looking at organic growth.
- 100% sourcing is done through in-house models
- 75% book is housing loan, while rest is non-housing, but ticket size for non-housing is also below Rs 1mn
- ***Interest rates for self-employed customers is generally 150-200 bps higher than interest rates for salaried customers***
- Average ticket size is Rs 0.9mn with 35% customer base as salaried and remaining as self-employed
- ***Company is not looking to enter into any unsecured lending atleast over the next 2-3 years***

- ***Balance transfer used to be 1% per month a few years ago, which has gradually fallen to 0.3% per month pre-Covid, while currently it is around 0.4% per month***

On liability

- ***Company has very well distributed lender base***
- Liability side mix is as under: Rs 22bn capital, Rs 20bn NHB, Rs 10bn multi-lateral agencies and remaining from banks
- ***95% of home loan book is classified as PSL*** and hence company also receives concessions from banks for lending towards PSL
- ***In the past 10 years, Aavas has never borrowed using commercial paper***
- ***Company's average cost of borrowings was 7.9% as of H1FY21 and it is likely to further reduce a bit in H2FY21***

On liquidity

- Bank has enough liquidity and there are no constraints on the same as of now.

On employee front

- Earlier 400 employees were delegated towards collection efforts which was increased to 500 employees on an employee base of 3,500 employees.

City Union Bank (HOLD, CMP: Rs184)

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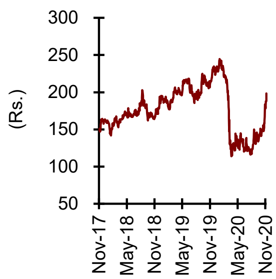

We hosted Dr. N Kamakodi, MD & CEO, Mr. V Ramesh (CFO) and Mr Jayaraman IR

Key takeaways

- **Collections.** ~90% at portfolio level, ~5% non-paying customers and 5% is 1+ DPD as on Sep'20. It extended moratorium to all eligible borrowers during the period from March-August'20. Post the end of moratorium period, ~94.5% CC a/cs and 85.7% of Term loan a/cs, totaling 90.5% of exposure received payments for September demand.
- **Customer Activation** – Total 9.0% of borrowers (in value) (0.65% of CC & 19.12% of Term loan exposure) had not paid even a single payment during moratorium. Out of them total ~5% of borrowers have paid the demand portion of one monthly installment in the month of September 2020, after fully utilizing the moratorium.
- **Provision buffer.** Provided Rs1.1bn for Covid-related uncertainties in Q2FY21 taking total buffer at Rs3.3bn or 89bs of loans.
- **Restructuring.** Currently restructuring request stands at Rs4.3bn and total restructuring to remain around 5%-6% including current pool of 1.35%. General approach is very clear, entertain only genuine SMEs who were regular pre-Covid and have viable business model to improve cash-flow over next 6-12 moths. Its prudent approach reflects in only 2% slippage from ~10% restructuring pool in 2008.
- **Other highlights**
  - **Its exposure to stressed sectors** like Education, Hotels, and Tourism etc stands at 8-10%.
  - Recovery rate – In normal time, it used recover ~70%-75% but with covid it expects recovery rate to drop by max 5%.
  - **Slippage guidance – 3-3.5% in FY21e.**
  - **Credit growth** – Currently, credit growth is largely driven by two products Gold loans and disbursements under ECGS. Going ahead, it continues to maintain cautious stance on growing balance sheet. Further, it highlighted that fresh enquiries are mostly for Balance transfers and weak demand for capital investments.
  - **Margins** – NIM expansion was mainly driven by two component A) reduction in cost of Deposits and B) optimization of CD ratio. Going ahead, it expects margin to normalize between 3.8%-4.2% from current level of 4.33% (adjusted for interest reversal on SMA loans worth Rs0.25bn) as it sees pressure on asset yields.
  - **Cost/Income ratio** – The cost/income ratio is likely to increase to 42-44% in coming quarters from current level of 40% as it expects non-interest income to remain pressure.
  - **Update on ECLGS** - It sanctioned Rs.19.6bn & disbursed Rs16.9bn to eligible SMEs. Initially, funds availed under the scheme was utilised to kick-start business activity but recently surplus funds are getting utilised to repay high cost borrowing.

Motilal Oswal Financial Services (Unrated, CMP: Rs602)

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We hosted Mr Navin Agarwal, MD, Mr Shalibhadra Shah, CFO and Mr Rakesh Shinde, Vice President IR

Key Takeaways

- Company is operating in four key business segments namely 1. Capital markets – largely retail and institutional equities 2. Asset management – MFs/PMS/AIFs, private equity and real estate fund; 3. Housing finance and 4. Fund based segment.

Capital market

- In the retail broking and distribution business, market share has improved to 3.1%. due to strong traction in new client addition driven by franchisee and retail channel.
- Retail business has grown 50% YoY in terms of profitability.
- **Margin requirement**: As per the new regulations, brokers cannot fund the margin requirement and it has to be funded by the customers. 5-10% of its revenues would be impacted because of these regulations.
- After the regulatory changes in Sep'20, it has seen volumes tapering for Sep'20 but the volumes have come back strongly in Oct'20.
- It has created separate channel for client acquisition from the existing brokerage. Rs110bn AUM in distribution segment and sell third party products as well as its own retail products across 17.5 lakh retail clients in the distribution segment.
- Investment banking: In such unprecedented similar to industry phenomena has witnessed some delays in the deal closure.
- Intraday volume is 60-70% for the company vs 70-80% for the industry.

Asset management:

- Asset management business AUM across mutual funds, PMS and AIFs stood at Rs400bn. AMCs profit was impacted on account of lower average AUM, post the unprecedented market correction in March and also due to cut in TER in MF. However, this impact would be neutralized post TER revision in October month.
- Equity mutual fund AUM stood at Rs222bn and its share of alternates is 42%.

Private equity:

- Private equity business committed investment AUM till date stands at Rs65bn across three growth private equity funds and four real estate funds. The 1st growth fund (IBEF 1) has delivered an XIRR of ~27%. Average IRR on exited investments in Real estate funds is 21%+. It has 3rd largest real estate asset management in the country.

Wealth management:

- Wealth management AUM grew by 13% QoQ at Rs200bn. Yield has improved in Q2FY21 by 24bps at ~78 bps led by higher net sales of high yielding equity product during the quarter. It has 4,000 families in this business and have been consistently investing in this business in the last 4-5 years. RM count of this business stood at 128. Trail revenues predominantly cover our fixed costs.

On cost

- It has seen 10% reduction in the costs because of several cost saving initiatives.

Housing finance:

- On-boarded two industry veterans Mr. Arvind Hali, as MD and CEO and Mr. Amar Bahl who has joined as Deputy MD and Chief Operating Officer for the Home Finance business.
- In the last couple of years, it has done a lot of consolidation in terms of our processes, risk management, building our collection team and collection architecture, all that coupled with huge focus on the technology. It is now well placed to take the housing finance business forward.
- Loan book stood at Rs36.5bn as of H1FY21and new book sourced from April'18 validates the new credit policy with only 1 case in NPA out of ~6700 loan cases.
- Collection efficiency has also improved to 93%.

IIFL Wealth Management (BUY, CMP: Rs986)

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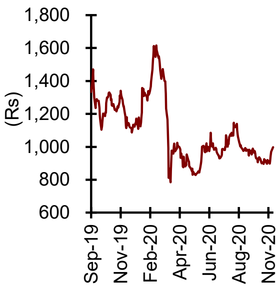
Price chart



We hosted Mr. Karan Bhagat, Founder, MD & CEO, Mr Anshuman Maheshwari, COO and Mr. Mohit Hemrajani from Investor Relations

Key Takeaways

Business strategy

- ***Company says that as they move forward, they will spend some more time in reorganizing business***
- ***Release of new IRA guideline gives flexibility of reorganizing business in 4-5 streams as per client needs which includes Alternative Investment Management, AIF, Distribution, Brokerage etc.***
- ***Overall, company is poised for good growth over the next 3-5 years and continue to be in an enviable position as far as market share is concerned***

On asset management

- On Asset management, AUM growth was 8% YoY with positive net flows.
- Large part of incremental net-flows is towards the fixed income securities from HNIs and institutional investors (60-65%). Preference is more towards fixed income despite capital markets back to almost pre-Covid levels.
- Only 10-15% clients were looking into equity – however now they are keen to understand new propositions and invest in high quality ideas. Cash preservation has been the motto for most of the clients.
- Company on-barded long short strategy in Singapore and seeing positive traction especially from institutional investors

On wealth management

- Firm record Rs 60bn of net inflows during the quarter
- Break-up of incremental inflows would be 50-60% from new clients and rest would be from existing clients
- ***From a long term perspective, getting top up flows from clients is extremely important***
- But on quarterly basis, this quarter flows looks attractive largely due to new clients
- ***Expect net flows of Rs120bn-130bn for FY22 outside MTM***

On market share and peers

- ***In its target segment which is HNI's, they believe that they have around 12-15% market share and would be at the top.***
- They look at entrepreneurs who have monetized large part of business and have not found next idea to invest, large industrialists receiving dividends and professionals in 3-4 sectors.

- The company is not actively pursuing HNIs upto Rs100mn – as it is economically unviable to address this segment. It does not have high touchpoint model nor a pipeline of ready access to be served digitally.
- ***Overall, bottom-up market share for IIFL would be 1-2% in the entire gamut of wealth management.*** Scale is not an issue for wealth management business

On operating cost

- Optimize cost and done well over the past 12 months. Bit of reduction in admin cost was driven on account of covid-19
- Optimization of resource which implies that getting people more productive. Productivity of RMs with existing clients is back to 95-100% - client migration from bank is slow.
- Continue to focus and ensure that the company can rationalize capital more effectively
- ***Over the next 12 months, company should be able to effectively rationalize capital by 10-15%***

On cost and capital rationalization

- Out of 66 team leaders, more than 95% have been doing pretty well.
- There are a total of 190-195 people where cost rationalization has been seen
- Of the total team of 290 people, number of 265-270 are established in productivity parlance
- ***Large cost rationalization will come from digitization of services, make trade execution more seamless, handling client queries more seamless over CRM platform.*** 60-70% cost rationalization is already done

On cost to income ratio

- Cost to income stabilize should come to around 50% in three years at least or before. Beyond 18 months, company will look for cost to income in the ratio of 45-50%.
- If asset management business growth well, then it might also come to 48
- Fixed cost growth is not very large, both on wealth management and asset management side
- Every 10-15% increase in AUM leads to marginal increase in cost to income ratio

On IIFL One

- Yields are at 40bps and over the next 3-5 years, it can increase by 5-10bps
- Would look to end at Rs 300bn AUM by end of this year as against Rs 220bn currently

On geography expansion

- Exercise of going into newer cities is really playing out well
- In terms of AUM, 70% should be from top8 cities and 30% from rest of the country
- Not in a hurry to open offices beyond the 20-22 cities wherein we have presence. In these, the top 50-100 families are already dealing with us

Miscellaneous

- Retention ratio should stay in the range of 50-55 bps in the near-term

MAS Financial Services (Unrated, CMP: Rs1,043)

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We hosted Mr. Kamlesh Gandhi – Founder, Chairman & Managing Director, Mr. Ankit Jain – Chief Financial Officer, Mr. Dhvanil Gandhi – Business Development Manager and Mr. Nishant Vyas – Investor Relations Manager

Key takeaways

- **Collections.** Collection efficiency has been improving since May'20 – it currently stands at ~92% vs 88% in August'20. Collections is defined as the amount received against the demand for the month. Collections in NBFC stand at 95-97%, while the same in retail segment is 85-87%.
- **Provision buffer.** It continued to strengthen the balance sheet by building total Covid-19 provision of Rs0.52bn or ~1.7% of the on-book assets of Rs30.8bn. It is constantly assessing the present evolving situation and would not shy away from making additional provisions if needed.
- **Disbursements.** The AUM stands at Rs53bn, down 10% YoY. It continued to adopt cautious approach in fresh disbursement as reflect in disbursement at Rs8.2bn (~70% of pre-Covid level). However, with improving collections and business activities, it expects to disburse Rs12bn by Q4FY21e.
- **Cost.** It continues to focus on cost optimisation by taking various initiatives to enhance the efficiency of the employees, cutting advertisement, travelling and other related expenses. It is also taking steps to move more towards variable based cost structure.
- **Liquidity.** Its strength lies in effectively managing the liability even during the most challenging period like post IL&FS crisis, during moratorium etc. As at Sep'20, the company had liquidity buffer of around Rs16bn and unutilised cash credit facility of ~Rs6bn. In addition, the company has sanctions to the tune of Rs11.5bn in the form of term loan, NCD and direct assignment. It has also stress tested its liquidity model and is comfortably placed to meet its repayment obligations for the entire year.
- **Capital.** It has always believed in growing balance sheet mostly with internal accruals, during the last 25 years it raised capital only thrice including IPO. Prefer quality over growth. CAR currently stands at 35.6% with tier-I capital at 32.7%. Tier-II capital is just 2.9% which it will increase depending on the requirement and also as a source of structural liquidity to strengthen ALM.
- **Housing finance.** Currently, the book stands at Rs3bn with NNPA >0.3% despite serving to informal segment. CAR stands at 40%. It plans to penetrate deep in Gujarat - will select 1,000-2,000 villages based on its risk appetite and build AuM of Rs10mn per village. Average ticket size in rural housing is Rs0.35mn and in affordable housing it is Rs0.7-0.75mn with average yield of 14.5%. Loans are mostly sourced internally.

Karur Vysya Bank (HOLD, CMP: Rs39)

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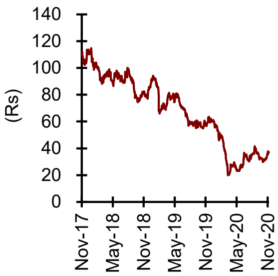
Price chart



We hosted Mr. B Ramesh Babu, MD & CEO, Mr. Ramesh Murthy (CFO) and Mr. J Natarajan (President & COO)

Key takeaways

- **Collections.** Better than expectation. Collection efficiency at portfolio level remains strong at 95%. Collection in non-morat is extremely overwhelming with 100% collections in CIG and commercial segment and 99% collections in personal loans.
- **Provision buffer.** It utilised strong operating performance to beef up Covid-related contingency buffer which stands at ~45bps of loans or Rs2.2bn as of Sep'20.
- **Restructuring.** Requests are tepid as of now (only 7-8 requests), in a worst case scenario, it expects incremental restructuring of 2.5% from sectors like CRE with mall exposure, hospitality and few from textile etc. It will judiciously use restructuring window and will only opt for restructuring where there is clear visibility on cashflow revival.
- **Business momentum.** Credit enquiries are picking up, but rejection rate continued to remain high. It will selectively grow in chosen segments like gold loans, SMEs, housing and LAP.
- **Cross-sell.** Customer base of 7.5mn with product per customer at 1.5x. Analysing scope for upsell / cross-sell and expects to improve PPC going ahead. It plans to leverage young work force (average age is 35 years) and robust digital platform to improve cross sell. CRM platform will be ready by Jan'21.

Profitability. Expects to 1% RoA by FY22e.

Business strategy

Liabilities

- Increased focus on expanding CASA and further improvement in share of retail deposits. Around 94% of TD is below Rs20mn ticket size. It has beefed up liability team and strengthen filed staff by providing the necessary training and realigning incentive structures. Further, in process up tying-up with National BC to increase its footprints in rural and semi urban areas.

Assets

- Corporate – cap on ticket size at Rs1.25bn, it has been constantly working on reducing existing exposure above Rs1.25 and as on Sep'20 that exercise is largely over. Incrementally focuses on Rs0.5-0.75bn ticket size, currently average ticket size in corporate segment is Rs0.38bn. Going ahead, they will grow CIG book selectively.
- Commercial – KVB enjoys strong pricing power in commercial book main pricing power and it believes this segment offers huge opportunities for the bank. It had selected 313 branches to push commercial loans. Necessary training & guidance has been given to Branch staff. Revamped digital platform will helped these selected branches to grow commercial book as faster pace.

- Retail – Completely digital platform with TAT at less than 15 minutes. Focus will be more on home loans, LAP and will grow cautiously in vehicle segment (Rs10bn book currently).
- Co-lending platform – Plan to partner with few players to deepen its geographical presence.

Gold loan. Gold loans contribute ~22% to total loans, mostly classified under agri portfolio as these loans have been extended for agricultural activities. LTVs <75% currently. Most loans are repayable in bullet payments with interest also payable at the end of the tenure. Key competitors are PSBs. Yields are 8.5% in agri gold loans, while in personal gold loan rates are higher at 8.5%. It reviewed gold prices fortnightly and adjusted ticket size & LTVs accordingly.

Credit card. It entered the space by launching credit card for the existing corporate and SME clients. Retail CC platform will be ready by Jan'21.

Other Highlights

- It disbursed Rs16bn under ECLGS scheme. Only 62% of total eligible customers have opted for loans under ECGS. They expect balance 38% not availing ECGS scheme due to improved business activities for these borrowers. Further, most borrowers who have opted for ECGS have paid back old costly dues reflecting improving health of SMEs. Hence, growth in commercial book is muted.
- Increasingly focuses on mining existing customer base, working on building strong MIS system, most likely to complete by Dec'20. CASA expansion from 28% to 34% over the past few years reflects strong customer loyalty towards KVB brand.
- Average age is 35 years, MD speaks to 5 branch managers every day. Strong MIS system in place to track branch performance. Trying to build a competitive spirit amongst the people for better productivity.

DCB Bank (ADD, CMP: Rs95)

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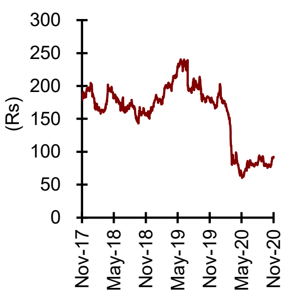

We hosted Mr. Murali Natrajan, Managing Director & CEO, Mr. Bharat Sampat (Chief Financial Officer), Mr. Praveen Kutty, Head - Retail Banking, Mr. Narendranath Mishra, Head - Agri & Inclusive Banking and Gaurav Mehta (Head Marketing & IR)

Key takeaways

Collections. Collection efficiency improved sharply in Sep'20 – LAP (87.5%), home loans (91.3%) and CV (77.1%). Non-paying customers as on 30th Oct'20 in LAP stand at 7.4%, home loans at 5.4%, CV 10.8% and 7% in MFI.

Liability - Deposit franchise of DCB continued to improve with increasing share of retail TD (up 33% YoY) and steady run-down in inter-bank deposits (fell 17% QoQ in Q2FY21). CD exposure as of Sep'20 is nil. Contribution of the top 20 deposits stood at 7.89%. Expects Top-20 depositor's share to fall to 5% over the next couple of years.

Promoter stake – Currently holding 15%, might look to increase stake if regulator revises current cap on promoter holding to 26%, currently no communication.

NOFHC structure – Does not intend to enter into Non-Banking businesses like insurance, AMC, Broking etc. Hence, would not require to make any change in current corporate structure.

Capital - Confident on portfolio and capital adequacy. Will reach close to 15% for tier-1. Not looking at raising capital at the moment.

Provision buffer. DCB continued beefing up contingency buffer with it providing Rs480mn in Q2FY21 taking cumulative contingency buffer to Rs1.4bn or 57bps of loans.

Restructuring. It expects incremental restructuring to remain at 3-5%.

Disbursements. It expects disbursement to reach pre-Covid level in March-May 2021. Incremental disbursement in Q2FY21 has been largely towards corporate Banking and AIB division at Rs4.6bn & Rs4.05bn, respectively. However, in the coming months, it intends to focus on its core strength like business loans (LAP), home loans, gold loans, KCC (Kissan Credit Card), tractor loans and short term corporate loans. Based on the current outlook, it expects advances in FY21 to remain flat YoY or may decline in growth, marginally. Small customers are slowly improving and expect normalcy by Mar-Apr'21.

- Gold loans – Currently, it disburses Rs1.8-2bn per month since June'20 vs Rs0.30bn earlier. Expects gold loan share to increase to 8-10% over the next three years.
- Home loan / LAP – Currently, it disburses Rs1.6/1.8bn vs 2.75/2.8bn earlier. Approval rate is lower by 10% than earlier. New applications are mostly for buying new property while balance transfer is only 20% of total new applications. Avg ticket size for LAP and home loan is Rs3.5-4mn with 75bps of extra yields. Customers generally have a min score of 700. Cautiously opening up LAP again.

Generally, compete with NBFC at lower ticket size. Home loans are generally done at 8.2-8.5%.

- Agri - Maharashtra, Rajasthan, Odisha, MP, Chhattisgarh, Telangana are major tractor finance areas. DCB looks at district level credit behaviour to decide if the region is suitable. Tractors sales is 50k/month. The largest players sell ~5k/month. The market is very fragmented.
- CV – Book stands at Rs15-16bn. Collection efficiency is improving MoM, it is linked to economic activities and expect it to improve and expect normalise by Mar-Apr. Disbursing loans to existing customers and will wait before onboarding new customers.

Long-term profitability metrics

- Margin – 3.4% - 3.5%
- Fee Income – 1%
- Cost – 2.15% - 2.2%
- Credit Cost – 0.55%

Other highlights

- Gold loan will be key focus segment going ahead and expects its share to reach 10-11% over the next couple of years from current level of 4%.
- It expects total cost to decline by 8-10% YoY in FY21. While some of the volume related expenses will come back in coming months, overall cost rationalisation will help cost/asset decline to 2.15% / 2.2% over the next two-three years.
- SMA improvement – SMA portfolio fell from Rs19bn in Feb’20 to Rs3.1bn in Sep’20, the same reflects resilience of its customer profile.
- Collection infra – Its collection team consist of 680 people currently, it adds 30-50 people annually. Collection is completely in-house and does not dependent on outside agency for collections.
- ECLGS – Total sanctions stand at Rs20bn while it disbursed only Rs3bn.
- Margins to remain around 3.65%-3.75%.
- Sambandh (microfinance) exposure - Net exposure stands at Rs60mn, already provided Rs20mn in Q2FY21, it’s a part of AIB division. They have done it to meet PSL targets.
- No geographical area is under stress. General trend is that metro and tier-1 cities are more impacted than rural. Rural is slightly better due to strong season and higher prices by the government.

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