

## Compendium – Q3FY21 earnings call highlights

In this compendium, we have put together Q3FY21 and Q2FY21 earnings call highlights for BFSI companies (including a few companies under soft coverage).

Q3FY21 earnings were a true performance test for banks. In the quarter gone by, stress settled lower and growth, earnings and return profile is now looking up. Key trends: 1) Collection efficiency is inching closer to pre-covid levels, albeit not much incremental delta from October levels; 2) Stress recognition (in the form of pro-forma slippages of 2-5%, SMA-2 pool) and invoked restructuring (at <1%) settled within or below the guided range; 3) ECLGS scheme has lowered the potential stress of otherwise most vulnerable MSME segment; 4) Unsecured retail and bus operator segment is reflecting disproportionately higher stress; 5) Specific coverage with standard + covid-related buffer seems sufficient for the existing stress pool lowering risk of credit cost volatility; 6) robust CASA accretion, sharp decline in deposit cost and release of liquidity buffer more than offset any adverse impact of interest income reversal and CD ratio moderation, leading to stable-to-improving NIM profile; and 7) Banks warm up credit engine to a select few less risky segments for growth.

Please click on the link below to refer to respective company's earnings call takeaways:

Companies	Companies
<a href="#">Aavas Financiers</a>	<a href="#">LIC Housing Finance</a>
<a href="#">AU Small Finance Bank</a>	<a href="#">Magma Fincorp</a>
<a href="#">Axis Bank</a>	<a href="#">Mahindra Finance</a>
<a href="#">Bajaj Finance</a>	<a href="#">Muthoot Finance</a>
<a href="#">Bandhan Bank</a>	<a href="#">Piramal Enterprises</a>
<a href="#">Cholamandalam Finance</a>	<a href="#">PNB Housing Finance</a>
<a href="#">City Union Bank</a>	<a href="#">Power Finance Corporation</a>
<a href="#">CreditAccess Grameen</a>	<a href="#">RBL Bank</a>
<a href="#">DCB Bank</a>	<a href="#">REC Ltd</a>
<a href="#">Equitas SFB</a>	<a href="#">SBI Cards &amp; Payment Services</a>
<a href="#">Federal Bank</a>	<a href="#">Shriram City Union Finance</a>
<a href="#">HDFC Bank</a>	<a href="#">Spandana</a>
<a href="#">IndusInd Bank</a>	<a href="#">State Bank of India</a>
<a href="#">Karur Vysya Bank</a>	<a href="#">Yes Bank</a>
<a href="#">Kotak Mahindra Bank</a>	

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## Aavas Financiers Q3FY21 Earnings Concall Takeaways

Continue to grow consistently in calibrated manner. Continued improvement in economic activity has led to getting back to normal disbursements.

### On asset quality

- **1+dpd is 8.2% (compared to 6.2% in September) – certain customers missed second instalments; Across buckets it is showing improvement and should normalize to 5-6%.**
- 30-90 dpd - 3.8%; September was negligible as 5 months were under moratorium.
- **5800 accounts that have not paid EMI in September and it is down to 2000 accounts who have not paid even in December.**
- Stage-3 is 1% - largely in line with earlier expectations – it included 0.59% of assets that are still standstill as per Supreme Court order. Maharashtra is above 1% in terms of GNPLs.
- **It created specific provisions of Rs100mn on the stage-3 assets. It has also increased provisioning by 5bps on stage-1/2 pool, thereby creating provision of Rs42mn towards this pool.**
- Encouraging trend in collection efficiency – 98.8% in December from 95% in September

### Salaried and self-employed mix

- Higher proportion of towards salaried segment in the mix was primarily due to
- 1.0-1.5% due to reclassification of occupation of primary earnings member rather than applicant
- 2.0.25% as self-employed were filtered and salaried disbursements were higher

### On assignment and off-book AUMs

- In 9MFY21 – assigned Rs3.9bn and gains of Rs405mn on securitized pool due to higher yields
- It generally assigns 15-20% of disbursements/AUMs and should continue as a trend.
- Incrementally borrowed Rs9.36bn at 7.04% for 144 months – and average borrowing cost is 7.68% with average tenor of 131 months

### Other highlights

- 118395 live accounts – 28% YoY growth
- Opened 18 new branches
- 3545 employees – 14% YoY
- Spreads improved 12bps QoQ to 5.74% as 10bps decline in yields (to 13.42%) was more than offset by 22bps funding cost advantage (at 7.68%) in a quarter.

## Aavas Financiers Q2FY21 Earnings Concall Takeaways

### On restructuring

- ***There is no request received for restructuring from customers, but company has the board approved policy in place towards the same***

### On collection efficiency

- ***Collection efficiency at ~95% while in normal times, it is in the range of 96-97%***
- In August, total moratorium was 10% in August and it has reduced to 3.5% in September

### On credit cost

- Additional ECL provisions of 56.8mn during Q2FY21. This has been arrived by categorization of high, medium. Low and risk-based profiling of customers.
- ***Overall provision is sufficient enough for 2% NPA but management believes that NPA would be in the range of 0.6-0.9%***

### On asset quality

- Stage 3 at 0.47% (inclusive of loan accounts which are under standstill as per SC interim order) and Net Stage 3 at 0.2%
- ***For September - Stage 1 is 99%, Stage 2 is 0.6% (0.7% in Q1FY21), and Stage 3 is 0.47%***
- ***6.2% 1+dpd has been reached much early than anticipated. 50% have already paid in October***
- ***Whatever is 1 dpd plus - generally of this 10-20% translated into GNPLs – more than that provisioned in the balance sheet.***

### On disbursements

- Rs 6.66bn disbursements during the quarter (up 3% YoY)
- ***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***
- Total top-up during the quarter was less than 1% of total disbursements
- Usually Rs 400-500mn is repayments/part-payments/foreclosure on a quarterly basis
- Sourcing 9,000-10,000 files every month - Now again sourcing similar to pre-Covid levels showing normalcy in its area of operations.

### On Opex

- ***Management states that on a YoY basis, opex to assets should reduce by 40bps each year for the next 2-3 years***
- Opex has reduced from 3.8% in H1FY20 to 2.6% of assets in H1FY21

**On margins & yield**

- ***Decided to reduce aavas financial lending rates by 10 bps from 1<sup>st</sup> Jan 2021***
- Spreads were maintained at 5.62%
- Average borrowing cost at 7.9% as against portfolio yield at 13.52%
- Zero exposure to CP
- Cost effective long term financing

**On liquidity and borrowings**

- Continue to maintain zero exposure towards commercial papers
- In the past 10 years, company has not resorted to commercial papers and doesn't wish to do in future as well since its average cost of borrowing currently is also relatively lower at 7.9%
- ***Rating upgrade by ICRA during the quarter***

**On return ratios**

- ***Endeavour to maintain RoA of 2.5%***

**On employees & employee cost**

- Invest in future growth in H2FY21 and keeps sufficient bench strength
- ***As a philosophy, ratio is one employee in support for every two employees in business***
- 3,500 employees of which ~2100-2200 are in business while rest are in support
- Added 50 new employees in the collection team to support collection efforts in H1FY21
- 80 people technology team and 15 people data analytics team

**On Risk underwriting**

- Earlier there was a negative list, while now there is only a positive list. Company will lend only to client under positive list.

**On digitization**

- 100% leads through mobile app; collection and data dashboard generated online
- Implemented 100% CRM
- 99% repayments are digital
- 80% customer need addressed through app and no need to come to branches
- Using data analytics, it gets some sense which borrower might go in for foreclosure or balance transfer and start engaging with customers through central team. Hence balance transfer has come down in normal circumstances

## AU Small Finance Bank Q3FY21 Earnings Concall Takeaways

### Opening remarks –

- Clarity on asset quality outlook, believes proforma asset quality has peaked out in Q3FY21 and should improve hereon.
- Adequately provided on all stress assets as on Q3FY21, hence believe credit cost should normalise from Q4FY21e onwards.
- Expect disbursement growth momentum to sustain as overall growth outlook continues to improve
- Considering the current trend most likely Collections and growth is likely to surprise positively in Q4FY21e.
- Fee income traction to continue, launch of credit card in April'22 should help diversifying fee income pool.
- SBL, Wheels and Business banking have shown healthy revival in demand.

**Liability** - Increased focus on customer activation - ZBA down 5% in 9mYTD21 and AMB improved by 21% in Q3FY21 in Saving accounts. Transaction per month improved to 13.8 in Dec'20 from 11 in Sep'20. Offers on e-commerce and robust payment ecosystem is driving Retaliation of deposits.

- Total deposit (ex CD) grew by 11% QoQ led by robust 20% / 21% QoQ growth in CA & SA accounts. As a result, CASA ratio expanded to 22% vs 20% in previous quarter.
- Continued traction in retailization of deposits and deepening of customers – Individual Driven Banking\* contributes ~60% of branch deposits as on Q3FY21 vs 36% in Q3FY20.
- In Core Markets, 41 (36 in Q2FY21) branches are having >5% market share and 8 (5 in Q2FY21) branches have >10% market share in deposits.
- Share of Retail in Savings Account (SA) has improved to 91% in Q3FY21 from 81% in Q3FY20.
- Retail deposits (CASA + Retail TD) now at 55% of deposits vs 43% in Q3FY20.
- Cost of fund continued to trend downward with it declining to 7.0% in Q3FY21 vs 7.5% in Q4FY20. Further, cost of incremental fund raised in Q3FY21 stands at significantly lower by ~110bps at 5.95%.
- SA cost is 5.8% - 5.9%.

### Advances –

- AuM growth (up 9% QoQ) in Q3FY21 was broad based with most segments contributing to incremental growth barring RE book (fell 13% QoQ) and NBFC book (down 6% QoQ). Retail Assets now constitutes ~85% of total AUM. Wheels momentum should continue, growth in this segment is driven by personal mobility segment and Rural segment and the same reflects in increased production

by large OEMs. No refinance on repossessed vehicle. No change in credit policy tenure, LTV are tightened.

- Business Banking – Capex cycle has revived after almost 7-8 years across sectors, mostly brown-field projects.
- SBL – largely working capital use
- ECLGS disbursements – Total Rs5.5bn to ~11,000 customers.

**Disbursements** – Total disbursement stands at RS65bn, of which ~41% was towards Wheels and ~89% was in retail and ~11% in wholesale segment.

**Collection efficiency** -

- Customer activation remains at 84% (full payments) & 7% (part payments) with Wheels (81%), SME (75%) and Gold loan (75%) dragging down collections. Jan'21 collections are better than Dec'20 levels not only in wheels but across products.
- Activation rate – 4-5% lower than pre-covid level. Expects improvement in activation by 2-3% going ahead.

**Stress pool** –

It has fast tracked NPL recognition and believes GNPL ratio have peaked out at current level. Going ahead, slippages can vary within narrow range of 5% +/- of quarterly run rate of Rs1-1.5bn. Pre-poned any kind of eventuality led to creating further in Q3FY21 after taking a pause in Q2FY21. Credit cost should be normalised to 30-40bps by Q3FY21.

Follow daily NPL tagging, due to due to supreme court order in Dec'20 whatever is above 90+ DPD is taken as proforma.

**Cost / Income ratio to remain at ~55% as** it will continue to invest on Branding, Digital platform, People and Franchise building.

**Restructuring** – It restructured Rs2.5bn worth of advances representing 0.8% of advances, expects total restructuring to remain at <1.5%.

**Credit card business** – In development and strategy stage, will launch in Q4FY21e. Most important payment instrument and believes to have right-to-win in payment landscape Credit card is important instrument. To get Retail deposits and merchant floats, payment ecosystem very important and focus will to build one of the best payment platform over next 2 years.

## AU Small Finance Bank Q2FY21 Earnings Concall Takeaways

### Opening remarks –

- Customer confidence, business continuity, and activity levels have considerably improved
- Rural sentiment is buoyed by above average monsoon, record Kharif sowing and various government schemes
- Overall visibility on growth has improved significantly, and remaining clarity should emerge by Dec'20/Jan'21
- SBL\*, Business banking and HL\* have shown healthy revival in demand, with Wheels also showing steady improvement.
- Few sectors like Education, Travel & Tourism and Hospitality are recovering at slower pace – need extended handholding; Bank remains actively engaged to help impacted customers

**Liability** - Shifting focus from mass sourcing to quality sourcing (RM based approach). To sharpen focus in key markets it formed specialised team and employees KRAs realigned as per revised strategy. Increased focus on customer activation (ZBA down 9% on annualised basis, AMB improved by 51% in 1HFY21 I'm Saving accounts). CASA ratio spiked to 21% from 16% in Q1fy21.

- Total deposit (ex CD) grew by 2% QoQ led by robust 26% / 41% QoQ growth in CA & SA accounts. As a result, CASA ratio expanded to 21% vs 16% in previous quarter.
- To further strengthen its liability franchise and leverage asset franchise, it segregated liability markets into Core market banking and Urban market banking with aspiration to be a leading player in Core market. Core Market Banking covers predominantly semi urban and rural markets.
- AU shopping Dhamaka – led to 5x jump in CASA leads.
- Urban Market Banking covers metropolitan areas which has huge potential to grow along with cross-sell opportunities.
- In Core Markets, 36 (26 in Q1FY21) branches are having >5% market share and 5 (4 in Q1FY21) branches have >10% market share in deposits.
- Reduced bulk deposits by Rs20bn and improvement in CASA ratio enabled 80bps YoY reduction in cost of deposit.
- Share of Retail in Savings Account (SA) has improved to 91% in Q1FY21 from 81% in Q3FY20.
- Share of Retail Deposits further increased to 57% vs 43% in Q4FY20
- As on Sep'20, LCR maintained at ~140% (LCR at 150% in June'20)
- Cost of fund continued to trend downward with it declining to 7.0% in Q2FY21 vs 7.5% in Q4FY20. Further, cost of incremental fund raised in Q2FY21 stands at significantly lower by ~90bps at 6.1%.

**Advances** – It continued grow cautiously and in selected area. Consolidation in RE book (fell 7% QoQ) and NBFC book (down 2% QoQ) restricted AUM growth at 2% QoQ. Retail Assets now constitutes ~84% of total AUM.

**Disbursements** – Total disbursement stands at RS34bn, which is ~72% of pre-Covid level however Sep'20 disbursements are already at 99% of Sep'19 level.

**Collection efficiency -**

- Customer activation at 78% (full payments) with Wheels (72%), SMe (78%) and Gold loan (72%) dragging down collections.
- Non-paying borrowers - Total non-paying borrowers (% of advances) stands at 5.5% as on August'20 of which ~90% were from wheels (50) and SBL (40). Further, 2.5% of borrowers has paid at least 1 EMI in Sep/Oct'20.

**Stress pool** – It estimate 2.75% of AuM to remain under stress and asks for close monitoring. However, it believes current buffer of Rs2.8bn (~1% of loans) is sufficient & hence not utilised Aavas stake sale to increase buffer. **No guidance on potential restructuring pool.**

**Focus on “Digital Bank”-** Looking to tie-up with Loan aggregators, Payment service providers, partnership with Think Tanks to remain ahead of the curve in adapting latest technology in financial space. Video Banking, Whatsapp Banking and Digital lending progressing well. Targeted approach resulted in sharp increase in customer activation on digital platform and multi fold jump in transactions.

Fine tuning digital strategy from last six months – pivoted around 3 things – A) customer acquisition, B) Deepening the relationship and C) servicing across liability and assets. It rolls out assisted digital lending journey with virtual RM & Video Banking support to accelerate digital adaption in Rural area. Its end-to-end digital lending is live for Maruti and expected go live for other OEMs in coming months.

**Others -**

- Bank guarantee of Rs7.5bn comprising of 700-800 customers is largely to contactors banking with AU for long term PWD, Irrigation, NHAI sub-contractors & is FD backed or security backed.
- Customer retention ratio in Retail TD is ~70%, in line with industry average.
- Number of customers doing >4 transaction per month increased by 15% to 2 lakh.

## Axis Bank Q3FY21 Earnings Concall Takeaways

### CEO remarks:

- Domestic economic recovery better than expected – in December activity levels are back to pre-Covid levels
- Very well poised to support, grow and participate in recovery.
- Transform operations bringing digital to the core following OPEN stack
- Large banks with healthy operating performance, adequate capitalization, digital capabilities would capitalize on reviving economy.

### Near-to-medium term strategy

- ***Following a path of prudence and strengthening the balance sheet - approach it is following is carry on the path sustainably and conservatism***
- ***Will continue to provide for fresh slippages next quarter as well*** though the run-rate of slippages will be lower in Q4FY21 (than Q3FY21).
- ***Prudence and conservatism should not be a reflection of behaviour of asset quality - Results of stress test encouraging and is 45-50% lower (compared to 25%) than what it expected in April***
- ***Most of the provisions are rule-based or based on certain formula for restructuring – will take the call at the end of Q4, if this provisioning needs to be carried forward.*** There are guardrails around reversals of this provisioning.
- ***RoA and RoE is an important goal post and want to attain it going forward (in near term) with FY22 being a look forward year towards that goal post.***
- ***Do not want to chase growth just for the sake of it but should not be margin dilutive*** – corporates are demanding much lower rates and is not encouraging disbursements at very competitive rates.

### On proforma slippages and movement of GNPLs

- Absence of standstill, GNPA's would have been 4.55% - reported provisioning coverage is 79% and IRAC norms is 75%
- ***Gross slippages Rs67bn – break up - wholesale was 10%, retail was 84% and SME was 6%***
- Retail proforma slippages are equally split between secured and unsecured – 100% provisioning made on unsecured retail slippages
- Moratorium got over in September – flow through on unsecured as anticipated has happened.
- ***Unsecured retail has largely slipped into proforma slippages in Q3FY21 and residual portion will be there in Q4 – though will be lower than Q3***
- Write-offs were higher at Rs42.6bn – There are rule-based write-off policy and don't exercise any judgement – write-offs this quarter is predominantly from wholesale book
- Recoveries are higher than pre-Covid levels

- **Not sold any NPAs to ARC in Q3FY21**
- 30+ dpd was disclosed last quarter as it was just out of moratorium – however, it is not providing or discussing that data
- **Fee and interest income related to proforma slippages have also been reversed from respective income lines**

#### **Provisioning break-up**

- Prepared accounts with extant IRAC norms – borrower-wise classification and not individual account classification
- Rs39bn is proforma slippages, Rs10bn – is specific loan loss provisioning
- Not used any overlay whatsoever held as at September - – provisioning coverage stands at 116% of IRAC GNPLs or 2.05% of advances

#### **On stress scenario analysis and collection efficiency**

- Structured and analytical based collections – reach out delinquent customers
- **Resolutions are at par with pre-Covid levels and even better. Demand resolution in retail is 98% in Dec (94% in Sept and 97% pre-Covid)**
- Bounce rates still remain bit elevated.
- **Collections have doubled from customers overdue more than 90-days.**
- Recovery from written-offs accounts has improved 70%.
- Stress testing **with external validation through knowledge partner. Results of stress test encouraging and is 45-50% lower (compared to 25%) than what it expected in April**
- Recognized slippages this quarter with lower residual impact in Q4FY21.
- Reference date for moratorium reporting is different than RBI

#### **On restructured pool**

- Judicious and selective around restructuring loans – Rs27bn – 0.42% of advances
- Carries provisioning of Rs6.3bn on restructured loans at 26%
- Restructuring requests remain lower than earlier anticipated indicating stress in lower than anticipated

#### **On BB & below pool**

- Fund-based BB & below is now at 1.37%
- Flow of BB & below pool - Collected Rs11.3bn, upgraded Rs3.12bn; flow into slippages were Rs8.2bn and downgrades were Rs10.4bn.
- Net NPA + BB & below + restructuring is at 2.7% and has provisions of 69% on this pool.

#### **On operating metrics**

- Net interest income with interest reversal would have been Rs79bn – compared to reported NII of Rs73.7bn (Rs6.14bn of interest reversals – 18 bps impact on NIMs)
- **Rs1.53bn of interest on income tax refund**

- **Fee income before reversal grew 5% YoY and 6% QoQ – reversal on cards business of Rs1.34bn**
- Cautious and not monetized MTM gain on SLR book – hence not much support from treasury profits
- Other income grew to Rs5.03 bn – recovery from written-off has increased 17% YoY.
- Operating expenses to assets stood at 1.95%, cost to income at 41%
- Increase in opex are attributed to the following
  - Staff count at 77015 (added 6425 in last 12 months and 804 in Q3FY21) – increments were rolled out in September 2020
  - Social security code liability ((gratuity equivalent catch up happens at one point in time and then is based on actuarial valuation) already provided contributed to increase by 3% in expenses
  - Increase in non-staff cost is due to revival of disbursements, promotional expenses, IT spends

#### **On digitization**

- Reimagining end to end customer journey – O (zero based redesign), P – proprietary in-house capabilities, E – ecosystem capability, N – Numbers and metrics driven
- Freecharge – now distributes financial services products

#### **Deposit growth**

- **Deposit on QAB grew 13%; SA grew 14%/4% QoQ, CA – 15% YoY/4% QoQ, retail TD grew 25% YoY/2% QoQ**
- 1.7mn new liability accounts to 4.8mn in 9mFY19. Savings bank acquisition improved 9% QoQ – deposits (on QAB basis) grew 8% YoY
- CASA has improved 574 bps YoY and 175 bps QoQ
- Salary and NRI within savings fell by 24% and 22% respectively

#### **On credit growth**

- Retail loan disbursements were up 37% QoQ
- Corporate and commercial banking – continues to deepen relationship with clients – added 452 new relationships in wholesale banking segment
- Corporate loan book grew 11% YoY – get NIMs into business at certain level – need right pricing and want to balance NIM versus growth
- Share of transaction banking and forex fees stood at 40%
- SME loan grew 6% QoQ – targeting collateralized segments

#### **In wholesale banking**

- 83% remains in A- and above and 94% of sanction have this rating
- Continues to be selective in lending

**In SME**

- Capitalized on opportunities and grew better
- Incremental sanctions 84% has SME-3 and above rated customers
- New lending platform called Sankalp for quicker turnaround and
- ECLGS has helped with short term liquidity – sanctioned over Rs105.83bn and disbursed Rs88.75bn – ECLGS 1.0 Rs82.91bn and 5.86bn
- Selectively based on due-diligence of the customers.

**In retail segment**

- Scoring models and policies have been recalibrated
  - Most new acquisitions are in mortgages – 81% continues to be secured
  - Remain cautious in unsecured segment – 10% of total portfolio and 19% of retail portfolio
- Actively leveraging analytics

**On subsidiaries**

- **Axis Capital** completed 37 transactions in 9MFY21 that include 6 IPOs, 10 QIPs, 7 Rights issue, 2 OFS, 6 Buybacks, 3 M&A, 1 Preferential, 1 ECM Advisory and 1 PE deal
- **Axis Securities** - full service broker focusing on building an advisory model, with customer acquisitions for the 9MFY21 period up 99% YOY to 233,763 customers. Total PAT for 9MFY21 period at Rs1.2bn was over 7X of full year FY20 PAT.
- **Axis AMC** remains one of the fastest growing AMC in the country across debt and equity product categories with average AuM growth of 44% in the last 12 months. The growth was driven by fund performance and Axis AMC improved its market share to 6%, up from 4.6% at the end of Dec'19
- **Axis Finance** - investments in retail business has started to yield results, Retail disbursements now account for 30%+ of incremental disbursements. No accounts were required to restructured in Axis Finance. Now well poised for growth with CAR of 21.7%. Overall ROE for Q3FY21 stood at 17.5% with wholesale ROE at ~24%

**Axis Bank Q2FY21 Earnings Concall Takeaways****CEO remarks:**

- ***Operating performance is strong*** – Pre-provisioning core operating profit grew 18% led by strong net interest income growth of 20%.
- ***Capital is at its best level and it is having adequate liquidity buffer and is confident of emerging stronger***
- Prudence continues in de-risking and strengthening balance sheet
- Remain conservative – proactively have further downgraded accounts into BB and below and made adequate provisioning.

- Provisioning buffer of Rs108bn over and above 75% specific provisioning coverage ratio.

#### On asset quality – stress scenario analysis

- Situation has improved in last quarter compared to what it was in Q1FY21
- ***Has conducted stress test scenario with external validation through knowledge partner. Results of stress test encouraging and is 25% lower than what it expected in April***
- It seems initial stress assumptions (that it highlighted earlier) were conservative; however, would continue to monitor the portfolio closely.

#### On GNPLs and slippages

- ***GNPLs declined to 4.18% but proforma would have been 4.28%. Slippages during the quarter due SC order were restricted to Rs9.3bn (0.65% annualized run-rate).***
- ***Gross slippage ratio was 0.64% - including standstill would have been 1.47%.***
- Wholesale and retail reported negative net slippages for the quarter.
- ***Provided on 90dpd plus as if they were NPLs – credit cost stood at 0.61% compared to 0.89%.***

#### Collections and recoveries

- Strengthening collection infrastructure;
- ***Demand resolution stands at 97% - September collections to September billing demand.***
- Cheque bounce rates higher in Sept and Oct then pre-Covid; proactively working with customers to get back to normal
- ***30 dpd stands at 2.3% as of Q2FY21; and for Axis Finance 30dpd will be less than what is reported for the bank.***
- ***September demand resolution at 94% and in October should be 97%.***
- Recoveries from w/o accounts have doubled.

#### Restructuring

- Restructuring is as per board approved policy and it is very selective. ***Restructured was NIL as of September*** but customers still have time to put in the request.
- ***Non-BB probable corporate restructuring pool at Rs32bn (0.56% of advances) and estimated probable restructuring for commercial banking and retail is Rs25bn***
- Based on assessment – overall restructure book to be contained well.

#### BB and below

- ***BB and below exposure have risen further by 40 bps to 2.6% (Rs148bn from Rs108bn) - ~ 75% of increase is on account of estimated probable restructuring (0.3% of 0.4%) and ~ 25% is on account of internal reviews, moratorium etc. (0.1% of 0.4%)***

- ***It is holding provisions of Rs26.7bn against the BB & below and probably restructuring exposure***
- Collected Rs4.2bn from BB and below book – has not upgraded any borrower in this pool
- ***Rs3.2bn slipped into NPL from BB and below and is part of restructuring***
- Increase in BB and below is due to internal review and probable restructuring outcome
- Exposures in BB and below are broadly granular
- Cumulative stress stands at 2.51%

#### **On provisioning and contingency buffer**

- ***Over Rs69bn of provisioning, it made further incremental provisions of Rs12.8bn crores towards loans under moratorium and Rs18.6bn towards probable restructuring, aggregating to Rs31.4 and taking cumulative additional provision of Rs108bn (1.9% of advances).***
- ***Provision for probable restructuring was Rs18.6bn – this is provided at the rate of 19% of estimated restructuring.***
- ***It holds aggregate contingency provisioning of Rs108bn of which Covid provisions stand at Rs 50.12 bn and restructuring and other contingencies related stands at 70.5bn***
- Making provisions on all facilities of borrower

#### **Fees – building granularity.**

- Third party distribution fees grew 38% - putting distribution strength behind it and life insurance product has seen good traction
- Share of transaction banking and forex fee now stands 57% of corporate banking fees
- ***Transaction banking and forex has reached 1.2x of pre-Covid level***
- Trading income of Rs7.7bn

#### **NIM**

- ***NII growth of 20% YoY, 5% QoQ – NIMs improved by 18 bps to 3.58% - 3 bps of capital raise, 5 bps due to lower interest reversal, 10 bps due to improved spreads***
- ***NII reserves impact is 5 bps; else NIM would have been 3.63%***

#### **Deposit growth**

- ***Deposit on QAB grew 13%; SA grew 15%/2% QoQ, CA – 18% YoY/3QoQ, retail TD grew 25% YoY/2% QoQ***
- Retail TD grew 18% YoY
- Corporate TD de-grew 23%
- Deposit franchise remains strong, granular
- ***CASA + retail TD grew 20% - retail savings grew 20%***

- Salary savings bank accounts grew 20% - getting Rs0.69mn savings accounts
- Thrust and focus on CA is high – average balances have increased across commercial, corporate etc.

#### **General strategy/approach on loan portfolio**

- Loan book grew 14% - corporate up 14% and retail up 12%
- Continuously strengthening risk framework with proactive risk interventions
- Focus on portfolio protection
- Better rated assets and secured retail assets

#### **In wholesale banking**

- Corporate loan growth was 22% - 95% of incremental sanction to A- and above book; 38% for tenor less than 1 year
- Wholesale banking – tightening customer selection and underwriting standards
- Selection in lending and focused on top rates corporates
- Corporate and commercial banking - Transformation of various coverage vertical, deepen engagement and gain wallet share

#### **In SME**

- Diversified and granular SME portfolio – 35 broad sectors, 120 locations, average ticket size is Rs33mn
- ECLGS has helped with short term liquidity – sanctioned over Rs70bn and disbursed Rs60bn; also applied to retail small business banking pool as well
- As demand comes back, utilization level would go up and will see increase in book
- SME book is 11% of advances – growth has returned after years of recalibration and consolidation

#### **In retail segment**

- Secured retail and new acquisition – significantly higher proportion of secured assets
- Retail unsecured is 11% of bank's portfolio – salaried, credit tested and existing bank customers.
- Retail advances constitute 53% - grew 12% YoY – 80% is secured; 100% PL and 66% of credit card comprise salaried customers
- LAP LTV is 36%
- Business traction in retail business is returning
- Disbursements reached 95% of last year and 75% of Q4FY20
- Disbursement for home loans, LAP, auto was at 90% of last year.
- On credit card – retail card spends market share have growth – retail spends up 51%; Consciously rationalising commercial card business
- Loan origination from branches up to 57%

- Leveraging analytics

**Operating expenses**

- Operating expenses – YoY increase of 5%
- Opex to average assets at 1.97%

**Capital and liquidity**

- Raised fresh capital adding 163 bps – CAR – 19.38% and Tier1 at 15.38%
- Adequate liquidity buffer (SLR of Rs340bn) – LCR of 117% - reduced excess liquidity

## Bajaj Finance Q3FY21 Earnings Concall Takeaways

A quarter was marked by granular business recovery, significant improvement in risk metrics, tracking implementation of business transformation plan and putting into motion a plan for pre-COVID growth and financial performance from Q1FY22.

### On asset quality

- **Proforma GNPLs and Net NPLs at 2.86%/1.22% compared to 1.34%/0.56% for Q2FY21** - GNPLs in auto finance business was at 11.5%, consumer B2C at 3.34%, rural B2C at 3.64% and SME lending at 2.33%.
- B2B businesses have seen increase in NNPA by 7 bps, SME by 48 bps, B2C (urban and rural) by 89 bps and auto finance business by 348 bps.
- The Company expects to revert to pre-COVID NNPA by H1FY22 except auto finance business which may take longer due to underlying collateral value. Front loading loan losses in FY21 to normalize in FY22 itself without carrying any baggage.
- **Loan losses and provisions for Q3 FY21 was Rs13.5bn bn.** Against the guided range of residual provision in H2FY21 of Rs26-29bn, post Rs13.5bn of provisioning in Q3FY21, it estimates residual credit costs in Q4 at Rs12.0-12.5bn (+/- Rs500mn). However, if the collection efficiencies remain better through Q4, there could be a further reduction in credit cost estimates.
- During the quarter, the company had **written-off of principal outstanding of Rs19.7bn and interest outstanding of Rs3.65bn on account of COVID-19 related stress.** The Company holds a **management overlay provision of Rs8bn (0.6%). Write-offs pertain to auto finance and 3-wheelers business; also in B2B and B2C businesses in moratorium who have not paid in last 6-7 months.**
- **Rs12bn of customers have upgraded from stage-2 to stage-1 with collections and recoveries.** Hence stage-2+stage-3 in Q3FY21 was Rs100.9bn compared to Rs128bn in Q2FY21, after writ-offs of Rs19.7bn.
- In Q3, collection efficiencies in bucket 0 was back to pre-COVID levels and in early buckets (1 and 2), it was significantly better than pre-COVID levels. Hence it expects FY22 credit cost to be much better.
- FY22 onwards, it expects provisions to revert to pre-COVID-19 levels of 160-170 bps of average assets. If recoveries are better in FY22 (not putting a finger at this point in time), it may experience lower net loan loss to average assets.
- **Offered restructuring of Rs20.4bn – 1.5% of AUM (including Mortgages – Rs9.3bn, unsecured – Rs5.2bn, B2B includes one single retailer account – Rs4.1bn and AF – Rs1.8bn) against it is holding a provision of Rs4bn. This is final and there will be no further restructuring.**

### On business origination

- Core AUM growth was just tab below Rs80bn – pre-Covid it was Rs90-95bn.
- **AUM growth is secular across all businesses except auto finance** - Most businesses have started disbursing 85-100% of last years' volumes with incremental growth being observed every month.

- In Q3, urban consumption businesses (B2B) were at 86%, rural consumption business (B2B) at 100%, credit card origination at 102%, e-commerce at 107% and auto finance at 62% of last years' volume.
- In Q3, loan disbursements were at 81% of last year's disbursements.
- **Mortgages disbursement was at 90% of Q3 FY20 level. However, AUM growth for the quarter was only Rs7bn due to significant portfolio attrition caused by pricing pressures by 4 leading players.** The company has taken pricing actions to revert to pre-COVID growth levels by Q4 / Q1.
- **AUM growth continues to be moderate down 1% YoY to Rs1.437tn** – compares with -1.3%/+7%/+27% growth for Q2FY21/ Q1FY21/FY20. Sequentially, it grew 5% after being was down by 7% YTD in H2FY21.
- **New loans booked gained traction to 6 mn – compared to 3.6mn/1.6mn/7.7mn in Q2FY21/Q1FY21/Q3FY20. Albeit recovering (up 67% QoQ), still seems a bit away from normalized run-rate – was down 20% YoY.**
- Customer franchise, consequently, was grew 5% QoQ to 46.3mn as it added 2.2mn additional customers (compared to 1.2mn/0.53mn/2.5mn in Q2FY21/Q1FY21/Q3FY20).
- **It has increased point of sale presence in consumer durables stores (urban and rural) but lowered for lifestyle retail stores and digital stores. This is because many stores would have closed or shut down – retail EMI has gone down as it paused this business in Q2 and Q3 less than 15k ticket size is not being serviced at this time.**

#### On credit card tie-up

- With targeted objective of being a leading credit card player, **it has clocked second partnership for co-branded credit card business with DBS Bank.**
- Contours or dynamics of business remain more or less similar to earlier tie-up.
- Will structurally keep growing relationship with RBL as well.

#### Zero based budgeting; Business transformation – Omni channel model for frictionless experience

- **Growth of the company is not contingent on its implementation of business transformation plan but its more inward looking to optimize and sharpen the way company is run.**
- **Significantly changing the way operating processes are run and update the core technology stack – will be completely by May '21.**
- Accelerated its business transformation journey to provide financial products and services to its 46mn customers in a seamless manner by creating an Omni channel framework. The Omni channel model will enable the customer to move between online to offline and vice versa in a frictionless manner.
- **Developing or significantly transforming 4 productivity apps:** Sales One app, Merchant app, Collections app and Partner app. These apps will significantly improve the productivity and efficiencies of employees, channel partners and merchant ecosystem.

- ***In the process of launching “Bajaj Pay” for consumers/merchants in Q4FY21*** – will offer an integrated payment solution comprising of UPI, PPI, EMI card and credit card to its customers.
- The Company is ***building 5 proprietary market places*** – EMI Store, Insurance Marketplace, Investment marketplace, BF Health and broking app with the help of group Companies. These 5 apps will provide customers with an option to review, compare and buy host of financial products and services across electronics, insurance, investments and health.
- ***Moment of Truth for the company*** - Better customer experience, much less friction, self-service infrastructure
- Will require much lower headcount addition compared to the growth.

#### **Revenues and interest income trends**

- Net revenues is up 3% QoQ/ down 5% YoY to Rs43bn – interest reversal of Rs4.5bn (over and above Rs2.1bn in H1FY21).
- ***Dial down surplus liquidity to 11.6% of borrowings at Rs146bn (compared to Rs223bn) from 22%***. Cost of excess liquidity was Rs2.13bn (similar to Rs2.2bn in Q2FY21). It will go back to Rs800mn or lower in coming quarters and will support NIM.
- The company will go back to its pre-COVID liquidity buffer of 7-8% of borrowings by Q4FY21 – started action to drive it down – paid down Rs66bn in Dec and early Jan.
- Cost of funds will come down to 7.5% from 7.78% in Q3FY21.
- Fee income was up 3% YoY to Rs8bn.

#### **Deposit accretion and capital adequacy**

- Deposit accretion continues; now at Rs238bn (up from Rs216bn in Q2FY21, 200bn in Q1FY21 and Rs202bn in Q3FY20).
- 3 year deposits at 6.6
- Good for next 3 years with respect to capital - CAR is more than adequate at 28%, with Tier-1 at 24.7%.

#### **On operating expenses**

- Operating expenses were lower by 9% YoY due to marginally lower business volumes and measures taken to reduce operating expenses.
- Some of the opex measures have now been institutionalized to deliver sustained cost savings going forward. Business transformation should lead to structural reductions in call center costs, travel costs, advertising & promotion and employee trainings costs etc.
- The Company has rolled back some of the transient cost cuts (eg employee costs will roll back fully in February) as it reverts to pre-COVID growth.

#### **Other highlights**

- Flexi-loans – not many converted post Q2FY21 – just acquiring in normal course of business. Stock of flexi would have gone up

- RoE on annualized basis is 12.9-13.0%.
- Bounce rates are still higher than pre-Covid levels.
- ECLGS scheme: Rs6-7bn of disbursements.

#### **With respect to RBI's regulatory framework**

- Would welcome the changes suggested by RBI when its announced and the regulator has constantly focused on harmonizing the guidelines. According to it, the businesses shouldn't have superior metrics as arbitrage exists and all players should be at the same level playing field

#### **Long term guidance corridor**

- AUM growth: 25-27%; Profit growth: 23-24%
- GNPLs – 1.4-1.7%; NNPLs – 0.4-.7%
- RoAs – 3.3-3.5%; RoEs – 19-21%

## Bajaj Finance Q2FY21 Earnings Concall Takeaways

Bajaj Finance reported a **PAT of Rs9.6bn – flat QoQ and down >35% YoY**. The decline in profitability was primarily due to its conservative stance - could have easily provided Rs7bn of provisioning – but had taken Rs17bn; excess liquidity cost of Rs2.2bn and reversed capitalized interest of Rs1.4bn (Rs3.6bn in H1FY21).

#### **On asset quality**

- Proforma GNPLs and Net NPLs (had it classified borrower accounts NPA after 31 August 2020) at 1.34%/0.56% compared to 1.4%/0.5% for Q1FY21. **Improvement in portfolio quality across all lines of businesses.**
- **Against 15.7% of moratorium book in June 2020, stage 2 (1 and 2 installments overdue) book as of 30 September 2020 stood at 8.0% versus 2.3% in Q2 FY20**
- Stage – 1: 91.3% - coverage of 1.3%; Stage – 2: 8% - - coverage of 32.3%; Stage – 3: 1.4% - coverage of 58.8%.
- **Provided resolution plan (restructuring) on assets worth Rs2.52bn (Rs2.14bn in mortgages and Rs0.38bn in consumer loans) (0.2%) as of 30 September 2020. Primarily, amongst the product segments it will be mortgages and 3-wheelers that will go into restructuring.**
- Bounce rates are coming down MoM but it's not at pre-Covid level.

#### **On credit cost**

- **Holding its credit costs estimate at Rs60-63bn for FY21 - has taken a loan loss provision of Rs33.9bn and based on current risk estimates, will residually take Rs26-29bn crore in H2 FY21.**
- 80-85% visibility is there and 15-20% clarity will emerge post Q3FY21.
- Frontload the losses rather than deferring.

- **FY22 onwards, loan losses and provisions should revert to pre-COVID-19 levels of 160-180 bps of average assets.** If recoveries are better in FY22 against provisions taken in FY21, it may experience lower net loan loss to average assets.

#### On business origination

- AUM growth has moderated to 1.3% (from 7% in Q1FY21) to Rs1.37tn from 27% growth reported in FY20.
- **New loans booked contracted 45% YoY to 3.6mn (compared to 6.5mn in Q2FY20).** Albeit recovering (up>100% QoQ) to mere 1.7mn in Q1FY21 – given tightened underwriting standards and low activity levels in metros.
- Restarted origination across all businesses except REMI (452K accounts - 6.9%) and wallet loans (152K accounts - 2.3%) which are on pause mode till January and March respectively.
- In September, versus previous year, urban consumption businesses (B2B) were at 72%, rural consumption business (B2B) at 91%, credit card origination at 73%, ecommerce at 75%, and auto finance business at 54%
- In September, new disbursements were at 62% of last year's level.
- Witnessing MoM improvement in volume – from September has accelerated volumes across all businesses.
- **Bajaj Finance has 70-72% of market share with OEMs Were competing with various players — it has not changes in pre-Covid era. However, it is down to 60-63% as it has taken important risk call that it doesn't want to continue business as usual till the time customers are moratorium and till bureau score normalizes.**

#### On flexi-loans

- **Converted Rs17.5bn (compared to Rs86bn in Q1FY21) of term loans into flexi loans to provide customers the flexibility of lower repayment and higher prepayment**
- **Expect the quarterly run-rate to be Rs 5-6bn going ahead.**
- Cumulative outstanding now stand at Rs435bn (personal, business, LAP, gold loans).
- Take-up rate was 35-50% across product categories – not much variance.
- **3 categories of products Term loans, drop line flexi and flexi – some comes with one year, 3 years or 6 months, interest only payment.**

#### On Fee income

- Cross-sell opportunities differ from product to product and risk appetite. For example, across the company's rural & urban customers of ~23mn, company is willing to offer personal loans/credit card to ~5mn in the current scenario while this number used to ~10mn pre-covid. So cross-sell opportunities depends a lot upon the risk appetite as well.
- **Fee income should become more of a pull than push - 33,000 customers in company's franchise buy one or the other pocket insurance product every month.** Company is thereby looking for aggressive cross-sell opportunities.
- Of 10mn, for ~40% customers, company is unable to reach due to DND.

**Near term outlook**

- Operating expenses down 16% YoY.
- **Company estimates AUM growth for FY21 at 6-7%. If the momentum by Q4 is stronger, there may be a potential upside.**
- Company plans to achieve Feb-20 loan originations by Mar-Apr 21.

**On operating expenses**

- Company had 2 options in April – either to cut opex or grow volumes aggressively wherein company opted to cut opex. As a result, opex fell 16% YoY or by Rs 2.24bn in absolute terms. **Of the total opex reduction of Rs 2.24bn during the quarter, Rs 1.2bn is structural while rest Rs 1.0bn is temporary in nature.**
- Now started to gradually roll back some of its actions of operating expense management and has reinstated its quarterly incentive plans for its staff from Q3 onwards.
- However, call center optimization, freeze on travel, advertising & promotion and deferred physical trainings etc. will continue in Q3 as well.
- Average opex to NIM at 31% - it is transient from current level of 28%

**Long term guidance corridor**

- AUM growth: 25-27%
- Profit growth: 23-24%
- GNPLs – 1.4-1.7%
- NNPLs – 0.4-.7%
- RoAs – 3.3-3.5%
- RoEs – 19-21%

**Other highlights**

- Interest on interest waiver – Government would pay all financial institutions – whom, how, what – need to wait for clarity
- **Not looking at being a bank till it grows 3x from here**
- Card business is back to 75% of last year – given significant dislocation, it is in pause mode for another partnership as of now.
- **Carrying loan of liquidity of Rs270bn – carrying cost of liquidity was Rs2.2bn**
- As bureau data becomes available, will run the scrub to understand the cross-sell franchise – as there are two measure – has he honoured BAF obligation and how has it behaved at system level.
- **Online is function of franchise and it has tie-up both with Amazon and Flipkart.**
- **BHFL business will be back to pre-covid levels by March 2021.** But company has an inherent disadvantage of being just 3 years old by March 2021 and hence this business will take some more time to grow at a rapid pace. If the company would have 3 years of strong financials for BHFL, then it would be access funds from money market at cheaper rates which is not the case now.

## Bandhan Bank Q3FY21 Earnings Concall Takeaways

### On collection efficiency and asset quality

- **Collection efficiency after touching 92% by December (from 89% in September) is down to 90% in January YTD – West Bengal is down from 90% to 89%, Assam is down from 88% to 78% and rest of India is steady at 94%.**
- **Proforma GNPLs on overall book is at 7.12% - 95% of this proforma GNPLs is coming from MFI pool suggesting 10% proforma GNPL**
- The proforma is conservatively taken; it even includes partial instalment paid customers in proforma NPLs – excluding part payment this would come down to 3.5%
- Of the overall proforma GNPLs of Rs56bn – West Bengal accounts for Rs25bn
- **On MFI book, 0-dpd is 76.54%; 31-60dps is 10% and 61-90dps is 5%.**
- Currently 80% customers are paying on-time and are regular; Part paying customers are 13%.

### With respect to Assam portfolio

- Assam government bill was discussed in first week of January and **hence the collection efficiency dropped post December. Till today (21<sup>st</sup> January), it is stable at 78% and has not further deteriorated.**
- Repayment behavior is more of a moral hazard. Also it is not sure if bill would be applicable to banks.
- **Share of Assam in MFI portfolio is 14% (down from 17%).**
- This is first time in last 15 years, that Assam has seen some disruption. For Assam, given the situation it will continue to be very cautious on disbursements.

### On provisioning

- It has created further provision of Rs10bn taking the aggregate additional provision of Rs31.2bn and net NPA stands at 2.36%.
- Provisioning takes into account the situation as of today.
- **Credit cost was guided at 3.5% of the overall book – now looking at the situation in Assam, basis that impact, it has to take 2% drop in collection efficiency, then credit cost guidance would be upwards by 100bps.**
- **However, it will want to front load all stress in FY21 and normalize by FY22.**

### Other aspects relating to asset quality

- Interest income reversal are not currently accounted in interest income. However, it will be relatively lower as unrecovered interest standing in receivable is Rs3.7bn.
- There were no write-offs during the quarter.
- Had not done any restructuring till date.
- With respect to disbursing the credit in Assam and West Bengal – Assam will take time to return to normal but will be business as usual for West Bengal.

**On growth**

- 23% YoY growth in advances (on-book+off-book+TLTRO) sustaining 5% QoQ growth momentum.
- ***New to credit and loan demand is more than normal - It has added 1.66 mn customers in Q3FY21 with total customer base reaching to 22.48 million (EEB- 17.13 million, Non EEB – 5.35 million)***
- EEB individual growth proportion has now risen to 10% and overall EEB grew 6% QoQ/30% YoY to Rs530bn. Mortgages and commercial banking were flat QoQ with mere 1-2% growth.
- Disbursements in EEB group was flat YoY (up 50% QoQ) and EEB individual loans doubled QoQ thereby leading to overall disbursement growth of 14% YoY/60% QoQ.
- ***Top-up disbursements – Rs9.2bn - Less than 6% of disbursements in top-up loans compared to 15% earlier***
- In commercial banking, it has reduced exposure to NBFC-MFI by ~20% QoQ to Rs19bn – else SME and NBFC-others were up 14% QoQ.

**On operating metrics**

- Operationally, the earnings were strong with NII growth of 35%, operating profit of 51%.
- NIMs still for Q3FY21 – 8.3%
- Also focused on third party product sale – it has now come to the bank

**On CASA deposits**

- ***Deposit gained further traction – up 8% QoQ thereby reporting 30% YoY growth to Rs712bn - retail proportion has inched up 400bps to 81% and CASA spiked to 43% (from 38.2%) – 66% YoY growth in CASA.***
- It has sourced new CASA accounts of 245k and mobilized incremental CASA of 52.2bn taking CASA ratio to 43%. Average SA balance has risen 50% YoY to 59k.
- Profile of savings bank customers is largely retail – incentive given to customers in terms of rates
- ***67-68% of customers are with SA balance less than Rs0.1mn***
- Too early to say, in terms of opportunity size for tie-up with Army – currently its not implemented

**On affordable housing**

- Northern and eastern states where they were not very active – they used to do 700 cases earlier and now doing 3500 cases.
- Bandhan Bank branches are now contribution 15-20% of disbursements in affordable housing
- Commercial banking and affordable housing collection efficiency is stable at 98% (no improvement).

## Bandhan Bank Q2FY21 Earnings Concall Takeaways

### On collection efficiency:

- Collection efficiency – MoM basis improvement – **September overall at 92% (76% in June); 89% in MFI (October month end is 91%)** – are very disciplined and running the business
- **95% of customers paid their dues in micro-credit for the month of October** – which is very good sign
- 76% customer are paying full in September (would have moved to 80% by October) – hence in value it comes to 91%
- **Individual loans collection efficiency at 99%**
- **Probably, by next quarter, collection efficiency should be near to pre-covid levels.** One key trigger for improvement in collection efficiency would be regularized running of local trains. With train services running, we see close to 5% increase in collection efficiency
- Over the past few years, bank has observed that micro-credit borrowers are very disciplined. They might they take some more time, but they repay their dues
- Collection efficiency – **West Bengal (47% of AUM)** - 90% in value, 96% in customers
- Collection efficiency – **Assam (16% of AUM)** - 87% in value, 88% in customers – month on month improvement and no reason to be panicking – it is below national average and going through challenges of flood, lockdown etc.
- Collection efficiency – **Bihar (9%)** - 97% in value, 99% in customers – best performing state despite state elections

### On credit cost:

- **Covid provisions of Rs 3bn during the quarter, total outstanding at Rs 20.69bn**
- Predicted 3.5% credit cost for overall book due to pandemic and continue to hold this guidance. Bank believes that collection efficiency has been better than expected.

### On asset quality:

- Rs 1,092.9 mn write-off during the quarter
- Net NPA 0.36% vs 0.60% YoY

### On restructuring:

- No major restructuring likely for Bandhan Bank - just need couple of months more to close or service the loans fully
- **None of the customer has asked for lower interest rates while resetting their repayment structure**
- **Top up loans stand at 7.6% of the EEB book – 12.3% of customers – Average ticket size of top-up loans is Rs 35,000, lower than the typical average of Rs 50-60k.** In terms of assessment of top-up loans, it is done as good as a new loan.

**On credit profile:**

- Advance growth stood at 19.5% YoY for Q2FY21 - Disbursements back to pre-Covid level
- Micro housing would be undertaken by EEB vertical going forward
- Good growth possible in mortgage vertical over the next five years
- Commercial Banking (CB) – Bank is working on this over the past 3 years. CB would be divided over three vertical based on ATS of ~Rs 20mn wherein bank will compete with NBFCs & banks. Next would be loans with ATS of ~Rs 3.5mn and then lastly for smaller SME with ATS of Rs 0.3mn.

**On interest waiver:**

- ***In microfinance, bank has never charged interest on interest – no compounding – it is always simple interest***
- Interest on interest benefit is applicable to all customers. Even if the customer is not being charge compound interest, bank still has to offer interest on interest to all customers with loans below or up to Rs 20mn as per RBI.

**On deposit profile:**

- 56% YoY CASA growth, which is the best quarter among the last couple of quarters
- ***CASA now forms 38.2% of total deposits***
- ***SA rate revised to 3% for lowest bracket in September and hence effect should be visible in Q3FY21***
- ***150bps TD rate fell over the past 18 months***

**Next 5 years' roadmap:**

- First years of bank the strategy was to build-up of bank, liability franchise, consummate merger etc.
- New 5-year focus plan – EEB will come down to 30%
- In commercial banking – 30% - promoting existing customers from micro-credit to MSME
- Retail loans – PL, 2-wheeler, gold loans, vehicle loans – through banking branches and will be 10% of the book; will use technology to source and assess customers
- Bank would not like to resort to higher ticket corporate lending over the next 5 years

**Other highlights:**

- Expanding network and building human capital - now there are no restrictions by RBI on branch expansion
- ***Bank is likely to add ~574 new branch outlets overt the next few quarters.*** (100 would be full-fledged, while rest would be micro banking or small units)
- For new branches, employee addition is largely done while branch outlets will be over the coming quarters

- Bank's strength is deep distribution and presence has moved well beyond East India since the past few years. There is no geography which is new for the bank. Bank would like to increase presence in few geographies where it has limited presence as of now.
- Bank is adding 10-12% distribution network over the past few years and has been able to maintain its cost to income ratio despite that. Bank doesn't see any reasons for steep spike in cost to income ratio in coming quarters as well.
- ***Changed the name from microfinance to emerging enterprise business because there is a perception that microfinance is a group loan, while in actual for Bandhan, its individual loan and hence renamed the vertical.***
- Small enterprise loans – micro credit promoted customers – 3.5 L; EEB – only those who are promoted from group to individual loans – 1.6.-1.75 L
- Fee income for the quarter stood at Rs 3.84bn

## Cholamandalam Finance Q3FY21 Earnings Concall Takeaways

### On slippages

- **Including proforma slippages, Gross Stage 3 at 3.75% and Net Stage 3 at 2.12%**
- **Segment-wise Gross Stage 3 (including proforma slippages) at 2.78% for vehicle finance, 7.3% for home equity and 3.8% for home loan**

### On provisions

- **Company provided Rs 4.4bn during the quarter, which was lower than what the company had anticipated, especially in vehicle finance business**
- **Total provisions on overall book at 3.09%, against an average of 1.75% which company used to carry pre-covid**
- **Total covid provisions at Rs 7.51bn as of Dec'20**
- **Macro & overlay provisions amounting to Rs 2.503bn would be held as reserve, while the rest will either be consumed or reversed as required in the forthcoming quarters**
- **Current stage 1 provision is around 67bps and going forward, it won't not be maintained at such higher levels**
- **Incremental provisions during the quarter is largely on account of restructuring**

### On collection efficiency

- **Stage 1 assets collection efficiency: 93% Sep, 95% Oct, 97% Oct & 98% Dec (calculated against billing vs demand for the month excluding arrears)**
- **Stage 1 assets collection efficiency: 59% Sep, 61% Oct, 61% Oct & 62% Dec (calculated as billing vs demand for the month including arrears)**
- **Vehicle Finance business collection efficiency: 87% Sep, 103% Oct, 105% Nov & 103% Dec (calculated as billing vs demand for the month excluding arrears). Company is likely to maintain similar levels going ahead as well.**

### On ECLGS

- **Overall company has disbursed Rs 15bn during Q3 towards ECLGS**
- **Vehicle finance - Rs 11.62bn (11-12% of vehicle finance book)**
- **LAP - Rs 3.84bn (13% of the book)**

### On Restructuring

- **Company is looking at overall 2% restructuring**

### On liquidity

- **Total liquidity at Rs 102.93bn (including undrawn lines)**

### On home loan growth

- **94% of assets & branches are in Tier 2/3/4**

- **Company doesn't focus on under construction properties**
- Focusing on self-construction, ready and resale properties
- Home loan segment which the company caters to is Rs 3tn in market size

#### **On vehicle finance business**

- YTD vehicle finance disbursements are down 25% YTD, due to lower disbursements in 1Q
- Tractors we are not losing, which cars & MUV, company might have lost a bit of market share
- **In tractor finance, company's market share has improved to 5.4% as against 5.1% YoY**
- There is a small increase in terms of LAP disbursements QoQ
- Company is not doing LAP business with tours & travels segment. On LAP, it is focusing on retail and segments involved in FMCG, food business etc.

#### **On management**

- Company needs to wait for some regulatory directions and till then company is comfortable working in the current mode
- **Company will develop clear outline on leadership, once the company gets clear regulatory directions on the same**

#### **On future growth**

- Company is definitely looking at lot of opportunities in the ecosystem
- It is current evaluating certain proposals and It might make some new announcement in the coming 2-3 quarters

#### **On used CV business**

- Used heavy vehicles business has been slow, due to scarcity of vehicles for sales
- With replacement cycle likely to begin for heavy vehicles (considering better macro), it will result in increased supply of used heavy vehicles for sale and thereby improved market for used heavy vehicle financing.

#### **On company's performance**

- Total AUM crossed Rs 750bn during the quarter
- PAT up 5% YoY at R 4.09bn
- **Interim dividend of Rs 1.3/share for the quarter**

## Cholamandam Finance Q2FY21 Earnings Concall Takeaways

### On Restructuring

- Restructuring would be done in a very minimal way
- It would be given to only those customers who have long term capability of paying the loan
- As of now, company has identified less than 1% of portfolio which can go for restructuring. In management view, it won't exceed 5% of the total portfolio even in the worst case.

### On collection efficiency

- **95% of moratorium customers have paid till date.**
- **Collection efficiency was 87% which is lower than 100-105%. In September 2019, it was 108%. However, for October, it expects collection efficiency to be at 105%**
- Till August, collection efficiency against billing used to be higher than 100% since a lot of customers were under moratorium. However, customers under moratorium were also paying dues which resulted in higher collection efficiency.
- **60% of the cases are being billed at the end of the month (mostly after 25<sup>th</sup>)**

### On asset quality

- Stage 3 stood at 2.75% with coverage ratio of 42.65%
- Company has not classified any new accounts as NPA after 31 Aug
- **Stage 3 at 2.98% and Net Stage 3 at 1.7% including standstill accounts as per SC interim order on NPA classification**
- **Total provision buffer at 2.64% vs. normal pre-covid at 1.75%**

### On credit cost

- As of September, company believes that the covid related provisions is adequate. In terms of credit provisions reversal, company will take a call post Q3.
- **Company believes that credit cost to further come down.** It has maintained 1:1 ratio of normal vs. covid provisioning

### On Disbursements

- October and November disbursements would be higher YoY. Also, H2FY21 disbursements would also would be higher on YoY basis
- **Company's Q2FY21 disbursements were close to Q4FY20 levels**

### On liquidity

- **Total excess liquidity at Rs 98bn including undrawn sanction lines**
- ALM comfortable with no negative mismatch across time frame

**On Margins**

- ***Margin improvement is due to change in product mix*** as company is moving to high yielding portfolio since the past few quarters

**On Opex**

- Opex to assets should hover in the range of 2.1-2.4% of assets over the medium-term

**On vehicle finance**

- H1 disbursements to existing customers are significantly lower as against the normal run-rate which is 25-30% of the total disbursements, since a lot of customers were under moratorium

**Miscellaneous**

- *Company's market share across segment is at similar levels on YoY basis*
- Built a digital data centre which will give predictive analysis

## City Union Bank Q3FY21 Earnings Concall Takeaways

### MD commentary

- No change in guidance – all parameters are within the expected range and hence not calling for any revision in guidance at this point in time. However, things are improving at a faster clip than earlier expectations.
  - Guidance the range for FY21e–
    - Slippage – 3-3.5%
    - Restructuring – 5-6%
- Guidance on credit cost – Q4FY21e will depend on write/offs, collection trends etc. and that's why management is guiding for lower RoA at 1.1% in a worst-case scenario vs 1.25% RoA during 9mFY21e. **Expects credit cost to normalize by Q3FY22e** as 1HFY22e will still see provision catch up on restructuring pool and incremental stressed asset formation.
- **Maintaining same stance on reaching pre-covid profitability (RoA @ 1.5%) by 2HFY23** despite better-than-expected portfolio behaviour as he believes pandemic impacted will be prolonged and still it poses risk of unknown risk.
- Credit growth – During 9mFY21, the key growth driver remained Gold loans and disbursement under ECLGS. Expect better Q4FY21e and from Q1FY22e onwards growth should normalise. In FY22e, it expects credit growth to remain at low double-digit.

**Collections – Collections at 89% as at Dec'20 are already at the pre-covid level.** Reported collection trend appears decline but adjusting for past due it is flat at 89%. Like Sep'20 collections, in Dec'20, stands at 95% the same was 89% in Oct'20.

**Asset quality - Proforma NNPL increased by 70bps to 3.37% vs 2.63% in March'20.** While arriving at Proforma NNPL it has utilized the entire covid related buffer of Rs4.65bn. Proforma slippages as at Dec'20 stands at Rs11.5bn or 2.7% of loans vs guidance range of 3-3.5%.

**Restructuring** – Total restructuring stands at Rs8bn or 2.2% of loans as at Dec'20. It expects incremental restructuring of ~Rs10bn in Q4 or 2.3% of loans, of which Rs5.17bn will come from MSME book and Rs5.2bn will come from the non-MSME book. The internal assessment shows that 90% of the restructured accounts are having good business viability and non-viable accounts are already part of proforma NPA.

**Interest reversal** – It already derecognized Rs0.5bn against potential stress during 9MFY21e, and by that number Nil is lower.

**Activity level of SMEs** – SMEs portfolio has behaved better than earlier anticipation. The monthly run-rate of transaction has already reached pre-covid level both in terms of value and volume. ECLG has boosted the SME confidence and has helped in kick-starting business activities.

**Disbursement ECLGS** – Of total Rs100bn eligible book (~20% finance under ECLGS), it disbursed Rs19bn as at Dec'20. There could be ~15-20% overlap between accounts getting disbursement under ECLGS and also opting for restructuring.

**Others -**

- Unrealized gain stands at Rs1.2bn as at Dec'20.
- It received Rs150mn from the Insurance Company against loss of Rs300mn in Cyber-attack in 2018.
- CRAR, including 9mFY21 profits stands at 18.89% vs 17.39% reported which it believes is sufficient as per the current stressed case scenario. Hence, does not foresee the need to raise capital in near future.
- During Q3FY21, it received money for 1 account worth Rs920 Mn from the outstanding of Rs2,474 Security receipt pool.

**Margins** – NIM expansion was mainly driven by a steady reduction in the cost of Deposits to 5.16% from 6.07% in Q4FY20. Adjusted margins stand at 4.42% (adjusted for interest reversal on SMA loans worth Rs0.30bn).

## City Union Bank Q2FY21 Earnings Concall Takeaways

**MD commentary** – Continued to maintain cautious stance and hence refrain from revising guidance. Will not chase growth till economic activities reaches pre-covid level and sustains.

Maintaining the same stance on reaching pre-covid profitability (RoA @ 1.5%) by 2HFY23 despite better-than-expected portfolio behaviour as he believes pandemic impact will be prolonged and still it poses risk of unknown risk.

Key Personnel movement - Two Senior GM retired recently and based on internal assessment 3 GM elevated to SGM position. Further, 7 DGM elevated to GM position.

**Activity level of SMEs** – SMEs portfolio has behaved a lot better than earlier anticipation. Monthly run-rate of transaction has already reached pre-covid level both in terms of value and volume, which earlier they have estimated to reach by Feb-March'21. ECGL has boosted the SME confidence and has helped in kick-starting business activities.

**Collection** - ~90% at portfolio level, ~5% non-paying customers and 5% is 1+ DPD as on Sep'20.

**Restructure guidance** – 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 during pre-covid time and have a viable business model to improve cash-flow over the next 6-12 months. Its prudent approach reflects only 2% slippage from the ~10% restructuring pool in 2008.

**Its exposure to stressed sectors** like Education, Hotels, and Tourism etc. stands at 8-10%.

Recovery rate – In normal time, it used to recover ~70%-75% but with covid it expects the 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 a cautious

stance on growing its 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 components 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 under 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.

## CreditAccess Grameen Q3FY21 Earnings Concall Takeaways

### Opening Remarks by MD.

- Customer centricity has always been of utmost priority and will remain centre of strategy going forward also. Its strong customer connect, highly motivated field staff, greater proportion of Rural customer base will help CAGL improve collection efficiency going forward.
- For the full year FY21e, RoA to remain at 2%+.
- Most likely AuM growth in FY21 should surpass the earlier guidance of 10-12%. Growth momentum should continue to going forward as it derives comfort from improving collections, adequate capital and strong manpower. Aspire to grow 20%+ in FY22e.
- From Q4FY22e onwards credit cost should normalise at 75-100bps annual run rate as it up fronted all covid related provision in Q3FY21 itself. **Based on behavioural changes due to Covid, it expects steady state credit cost to increase by ~30-40bps and settle at ~100bps vs 60-70bps earlier. Every crisis (AP crisis, Demon etc.) has led to ~30bps increase in steady state credit cost and management expects similar increase due to Covid.**
- Eventually write-offs to remain at ~4%, in line with what they have seen during demonetization. **Current accelerated provision is more technical in nature and should see provision write-back in 1HFY22e.**
- Merger integration to conclude within next 6 months. It appointed PWC for the integration process.

### Disbursements.

- Disbursements in Q3FY21 picked significantly from lows of Q1FY21, and was mainly towards existing customers.
- ~98% cashless disbursements. Digital collections mode is available to customers.
- It added ~1.62 lakhs of new customers in Q3FY21 of which ~15-18% disbursements were towards new to company customers.

### Credit cost.

- **CAGL** - Total ECL provisions for CAGL as at Dec'20 stands at ~5.94% of gross AuM against proforma GNPL of 6.84%.
- **MMFL** - Total ECL provisions for MMFL as at Dec'20 stands at ~4.6% of gross AuM against proforma GNPL of 2.79%.
- **It expects credit cost to normalise from Q4FY21e onwards. On a steady state basis, it expects credit cost to increase to ~1% from current level of 0.8-0.9%.**

### Collection efficiency.

- Collection efficiency improved - CAGL recorded 91% collection efficiency in Dec'20 vs 88%/82% in Sep/August'20 respectively. Collection efficiency for MMFL stands at 86% in Dec'20 / 83% in Sep'20.

- Most of the incremental provisioning in Q3FY21 is towards impacted portfolios in Maharashtra. Mainly in four districts namely Kollhapur, Solapur, Sangli and some parts of Satara. Maharashtra. Collection in Maharashtra should normalise by Q4FY21e.
- Collection in Coastal Maharashtra at 98%, Vidarbha at 94-95%, while collections in southern Maharashtra remained low as it was impacted by flood last year, then hit by covid and again in Oct'20 flood impacted the economic activities.
- ~6.9% of customers have paid partial payment and as a prudent measure it has reversed interest for customers who are in 60+ DPD bucket. Further, the customers who paid partial dues of Nov'20 in Dec'20, they have taken that customers as non-paying in Dec '20.
- It expects most of partial paying clients of 6.9% to become standard by March'21 and expects a 10-15% activation rate in the non-paying pool of ~4.9%.

**Strong liquidity position.** Liquidity – 12-15% in FY21e and steady state will be 7-8% of assets.

#### **Others.**

- Exposure in WB is less than Rs70mn.
- Tamil Nadu exposure stands at ~22% at consolidated level - election is not likely to impact MFI collection.
- Will continue to diversify geographical presence – it expects the share of KTK to fall to 25-26%, ~20% in Maharashtra and 20-22% in TN over next three years. Growth rate in these three states will remain at sub 10%.
- Rating – don't expect a major reaction due to loss to ratings for the company.
- Expects to clock ~20-25% AuM growth for next 4-5 years.
- NIM at 8.7% is lower than historical average of ~12% – ~2.4% interest reversal impact and 0.4%-0.5% impact due to excess liquidity.
- JLG – Because of covid not forcing other members to take load of defaulting members. Employees are trained well to manage that.
- Centre meeting attendance – At the onset of Covid, it started conducting meetings with attendance of 25% of members, then gradually increased to 50% by Sep'20 and now further increased to 75% of members.
- Cumulative write-offs in 9mFY21e stands at ~Rs1.4bn at consolidated level of which is Rs1.3bn in Q3FY21. Written off all accounts in 180 DPD+ bucket and not as per standard policy of 270 days.

## CreditAccess Grameen Q2FY21 Earnings Concall Takeaways

### **Opening Remarks by MD.**

- Customer centricity has always been utmost priority and will remain centre of strategy going forward also. Its strong customer connect, highly motivated field staff, greater proportion of Rural customer base will help CAGL improve collection efficiency going forward.
- For the full year FY21e, it expects low double digit growth in FY21e as disbursement in Oct'20 is already higher than Oct'19. Incremental disbursement in Oct'20 was towards 60% of existing customer and 40% to new customers.
- Group size reduced to 4/5 members per group over medium term from currently 10 members to ensure social distancing.
- Merger integration to conclude within next 6 months. It appointed PWC for integration process. Approaching SEBI next week for final legal approval.

### **Disbursements.**

- Disbursements in Q2FY21 picked significantly from lows of Q1FY21, and was mainly towards existing customers from Kendras paying 100% on-time instalments.
- Disbursement in Oct'20 is already at pre-covid level as it resumed acquiring new borrowers in Oct'20.

### **Credit cost.**

- **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.**

### **Collection efficiency.**

- **Collection efficiency improving but at moderated pace-** 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 due to extended lockdown hence higher economic impact, KTK 2-3 districts in Coastal KTK impacted due to heavy rains and few districts in Chhattisgarh impacted due to second lockdown.

- **Collection efficiency in Maharashtra stands at 81% for CAGL.**
- **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 instalment 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 collection (ex Maharashtra) to normalize by Dec'20, and including Maharashtra collection to normalise by March'21.

**Strong liquidity position.** Overall liquidity stands at ~15% of total asset.

**Others.**

- 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 extended the tenure of outstanding loans and kept EMIs same, hence monthly demand will be same going forward.**

## DCB Bank Q3FY21 Earnings Concall Takeaways

**Opening remarks** – Portfolio behaviour is improving but difficult to assess the stress level at this point in time. Strong operating profitability (PPoP of Rs7-8bn) would help it to deal with any unforeseen stress if arise. While economic activity is picking up gradually, DCB would remain watchful and would be very selective in sourcing new business especially on MSME side. Gold loan / Tractor Financing / KCC / Home loans will be key focus segment going ahead.

### **Long-term profitability metric**

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

### **Asset quality – No guidance on slippages in FY22e and not lowering restructuring guidance as well.**

- Headline Asset quality improved with GNPL ratio declining to 1.96% from 2.27% in Q2FY21 and accelerated provision help in reducing NNPL ratio to 0.6% in Q3FY21.
- However, if the Bank had classified borrower accounts as NPA after August 31, 2020, proforma Gross NPA ratio and Net NPA ratio would have been 3.70% and 1.92% respectively.
- Based on internal portfolio analysis, it expects incremental restructuring to remain around 3-5%.
- While things are improving, management refrained from giving guidance on slippages for FY22e.

### **Collection efficiency improved further in Dec'20, marginal dip in monthly collection in Dec'20 is not alarming and is usual monthly volatility given self-employed customer base.**

- LAP 89.8% in Dec'20 fell from 91.5% in Nov but higher from 87.5% in Sep'20 and non-paying customer pool now stands at only 1.3%.
- Home loans showed steady improvement with touching 94% in Dec'20 from 91% in Sep'20 and non-paying customer pool now stands at 1.55%
- CV collections further improved to 80% from 77.1% in Sep'20 with non-paying customers 3.2%.
- MFI – customer activation rate is 95.3%.

**Deposit**

Over past two years, it is increasingly focuses on improving the share of Retail TD and reduce bulk deposit share. As a result, Retail TD grew by 22% in Q3FY21 and similarly Interbank deposits fell by 34% YTD to Rs26.8bn.

The share of Top20 depositors fell to 7.28% from 8.24% in Q3FY20.

The management does not intend to build CASA base by offering higher SA rate as it believes landed cost is much higher. Hence, it will continue to build the CASA book the way it is building currently.

**Credit growth – Expects double digit growth in FY22e but 1HFY22e will be subdued.****Operating leverage – It remained committed in improving productivity, expects Cost/Asset to settle at 2.2% over next 18-24 months.**

- It expects total cost to decline by 8-10% YoY in FY21.
- While some of the volume related expenses to come back in coming months, overall cost rationalization to help cost/asset declining to 2.15% / 2.2% over next two-three years.

**Others -**

- Unsecured book stands at 20% - Fintech and BC MFI is largest contributor to unsecured portfolio.
- Had not taken any interest reversal on Proforma slippages.
- Provision break-up – Rs1.5bn Covid, Rs20mn NPA 20cr, Rs30mn floating, Rs30mn std asset, Rs220mn restructured book and Rs160mn specific provision.

**DCB Bank Q2FY21 Earnings Concall Takeaways**

**Opening remarks** – Portfolio behaviour is much better than what they have anticipated at the on-set of Covid. While economic activity is picking up gradually, DCB would remain watchful and don't expect disbursement reaching Pre-covid level before March-May'21. Gold loan will be key focus segment going ahead and expects its share to reach 10-11% over next couple of years from current level of 4%.

While management doesn't feel to review entire business model, they will certainly relook at credit policy and make necessary changes to ensure better underwriting, most of their loans, even during pre-covid, was having CIBIL score of 700+.

**Long-term profitability metric -**

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

**Asset quality –**

- Asset quality improved sequentially with GNPL ratio declining to 2.27% in Q2FY21 from 2.44% in Q1FY21. Lower slippages at Rs0.9bn due to Supreme Court's interim order and w/offes at Rs284mn enabled improvement in asset quality.
- Even, if the Bank had classified borrower accounts as NPA after August 31, 2020, proforma Gross NPA ratio and Net NPA ratio would have been 2.39% and 0.92% respectively.
- Based on internal portfolio analysis, it expects incremental restructuring to remain around 3-5%.

**Collection efficiency -** 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 stands at 7.4%, Home loans at 5.4%, CV 10.8% and 7% in MFI.

**Margin expansion (32bps QoQ) in Q2FY21** was mainly driven by A) 15bps improvement in asset yields and B) 20bps improvement in cost of deposit.

**Deposit** – 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). CD exposure as at 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 next couple of years.

**Credit growth – Estimate Loan book to remain flat YoY or marginal contraction in FY21.**

- Expects disbursements to reach pre-covid level by March-May 2021.
- Incrementally it will continue to focus on Business Loans (LAP), Home Loans, Gold Loans, KCC (Kissan Credit Card), Tractor Loans and short term Corporate Loans.

**Operating leverage – It remained committed in improving productivity.**

- It expects NII to remain flat YoY while it estimates other income to decline in FY21e due to lower business volumes.
- It expects total cost to decline by 8-10% YoY in FY21.
- While some of the volume related expenses to come back in coming months, overall cost rationalization to help cost/asset declining to 2.15% / 2.2% over next two-three years.

**Others -**

- SMA improvement – SMA portfolio fell from Rs19bn in Feb'20 to Rs3.1bn in Sep'20, the same reflects re3sileicny of its customer profile.
- Collection infra – Its Collection team consist of 680 people currently; it adds 30-50 people annually. Collections is completely in-house and does not dependent on outside agency for collections.
- ECLGS – Total sanctions stands 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.

- **Disbursement data** – Segment wise
  - Gold loans – Currently it disburses Rs1.8-2bn per month vs Rs0.30bn earlier.
  - 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 application is mostly for buying new property while balance transfer is only 20% of total new applications.
- CASA to remain around 20-22% as it currently focuses on building granular Retail TD book.

## Equitas SFB Q3FY21 Earnings Concall Takeaways

### Opening remarks –

- Diversified asset mix (~79% secured assets) and granular liability base is reflection of its concentrated efforts towards building long-term sustainable and resilient business model.
- Credit cost to remain at 2-2.5% in FY21e and from FY22e onwards credit cost to normalise.
- Would continue to approach MFI lending in a cautious manner. Assam episode is cause of concern and Industry is working together to arrive at resolution. Equitas has always been prudent in doing MFI business. 15-20% annual growth to continue. ~5-6mn client base. Next 12 months' industry will become a lot more prudent.
- Small Businesses were quickest to recover as reflect in pre-covid collection as at Dec'20.
- Used CV – LCV utilization in Dec'20 was back to normal, in MHCV goods back to normalcy but Passenger segment will take time.
- Recovery and collection to remain key focus in Q4FY22e and expects covid related stress to peak out by Q4FY21e.

### Advances – Next year growth will be subject to the asset quality outcome in Q4FY21e. Credit growth in FY22e most likely to remain at 20%+.

- Advances grew by 19% YoY, spread across sectors except MFI which remained flat YoY. Sequentially, most segments reported growth while MFI fell 4% QoQ.
- Disbursements at Rs24.6bn in Q3FY21 is at 80% pre-covid level. In Q4FY21e it will improve further and back to pre-covid level by Q1FY22e.
- Secured portfolio stands at 79% of total loans.

### Liability -

- Strong traction in deposits continued as reflect in 25% QoQ growth in deposits ex CD. Retail TD growth was impressive at 10% QoQ and SA growth too remained robust 24% QoQ. CASA ratio now stands at 25% of total deposits.
- Acquired & On boarded >~1,28,000 Savings Account Customers through Integrated Digital Marketing.
- Bulk deposit pricing is either at par with Retail TD or lower. 80% of Bulk deposits are non-callable.
- Reduction in Interest rates by 30bps across buckets, in Q4FY21e will also looking to cut further.
- SA cost increases to 6.5% in Dec'20 from 6.4% in Sep'20. Average balance in SA sourced via digitally stand at Rs28,000 which is at par with balance maintained by customers via Physical branches.

**Provisions** - COVID related provisions stands at Rs0.57bn as on Dec'20, down from Rs1.7bn in Sep'20, as it utilised Rs1.1bn against actual provisioning requirements for slippages in respect of specific loan accounts.

**Asset quality & Collections - 10% is 1+ DPD including proforma NPLs.**

- Proforma Gross NPA Ratio and net NPA Ratio would have been 4.16% and 1.71% respectively vs reported GNPL of 2.27% and 0.67% respectively. Proforma slippages appears to be significantly higher in MFI business as reflects in GNPL increasing from Rs0.46bn in Sep'20 to Rs1.8bn in Dec'20 despite it not having exposures in Assam and West Bengal. Maharashtra and Punjab contributed most to MFI slippages.
- X bucket collections – means the customer who start a month without overdue. Dec'20 X bucket collections suggesting stability in collections across products. Partial EMI will not be considered to arrive at billing efficiency. Billing efficiency is including GNPL portfolio in denominator.
  - MFI X Bucket Collection efficiency for the month of December 2020, December 2019 & February 2020 at 98.30%, 98.40% & 98.50% respectively
  - SBL X Bucket Collection efficiency for the month of December 2020, December 2019 & February 2020 at 99.05%, 99.34% & 99.41% respectively
  - VF X Bucket Collection efficiency for the month of December 2020, December 2019 & February 2020 at 95.72%, 95.09% & 96.50% respectively
- Recovery and collections to remain key focus on Q4FY21e as well, and most likely covid related stress to peak out by March'21.
- Restructuring stands at ~1.97% of advances including to be restructured in Q4FY21e, lower than earlier anticipations. Rs340cr total requests. Rs40cr accepted by Dec'20 rest will accept in March'21, no further pipeline. Rs30cr from MFI.
- OD bucket recovery is already at pre-covid level.

**PCR segment wise –**

- MFI 90% - Proforma GNPL at 5.22%
- Small Business Loans 36% - Proforma GNPL at 3% is broadly stable, even in pre-covid level GNPL was around 3%.
- Vehicle Finance 47% - Proforma GNPL at 5.5%
- MSE Finance 30% - 1.95%

**Others –**

- During the quarter, Bank sold PSLCs worth Rs18bn and recognised Rs0.17bn as PSLC income.
- All vehicle assets are in very good conditions, last inspected in Sep'20.
- Affordable home loans – Yields at 11-12% & fees 1%. As of now present only in Gujarat.
- Cost / income ratio to remain at 55% in Q4FY21e ex treasury income.

## Federal Bank Q3FY21 Earnings Concall Takeaways

### Asset quality –

- Proforma GNPL stood at 3.38% vs 2.71% as reported (higher by ~25%) with cumulative proforma slippage of Rs8.67bn of which Rs3.1bn was from Retail, Rs1.5bn from Agri, Rs1.8bn from Business Banking, Rs1bn each in corporate segment.
- Reported Provision coverage ratio (ex-write/off) improved to 78% from 66% in Q2FY21 and even after factoring proforma slippages PCR remained strong at 66%. 65-70% steady state PCR would build. Considering book is significantly secured and so far LGDs are sub 40. Would keep 15-20% of provision on rest book. Higher PCR is by assuming crash in property price by 25-30%.
- It utilised Covid contingency buffer of Rs0.5bn in Q3FY21, taking total Covid19 buffer to Rs5.4bn or ~40bps of loans.
- Reported fresh slippages in Q3FY21 remained negligible at Rs0.3bn due to Supreme Court restriction in recognising NPL.
- Recoveries were lower at Rs1bn vs normal run-rate of Rs2-2.5bn per quarter, it expects recovery to improve materially in 2HFY21e.
- Collection efficiency already reached pre-covid level of 95% ex restructuring.
- SMA 1-2 – 60-70bps 1.8% pre covid now 2.5-2.6% excluding rest book.

**Restructuring –** It restructured total Rs10.6bn till 16<sup>th</sup> Jan'20, of which Rs8.5bn was towards Retail segment. It now expects total Covid restructuring to remain at Rs15-16bn or 1.3% of loans vs earlier guidance of 2-3%. Retail home loans witnessed highest restructuring of which NRI related is 25-30% of Retail home loans restructured. 55% Home loans & 45% LAP. More than 90% of rest is coming from moratorium book.

**Margin expansion (9bps QoQ) in Q3FY21** despite taking interest reversal of Rs0.4bn on proforma slippages and was mainly driven by A) strategic re-design of business mix with desired segments showing traction even during current period like Gold loan, B) Calibrated growth in lower yielding Home loan/Corporate book and C) strong traction in CASA. Cost of Deposits fell 23bps QoQ while Yields on advances fell only 17bps QoQ.

Margins for next couple of quarters is likely to remain at current level of 3.2%.

**Deposit –** Deposit mobilization remained strong with it registering growth of 12% YoY / 3% QoQ in total deposits, despite it cutting TD rates by ~135bps over past 1 year. CASA grew by 6% QoQ driven by 8% QoQ in CA accounts followed by 5.1% QoQ growth in SA accounts. Notably, SA rate offered by FB is amongst lowest in the industry, speaks for its robust liability franchise.

# Strong franchise helping it sustaining strong growth in deposits. Earlier deposit growth was mostly driven by Kerala but now it is broad based. As spending increases some moderation in deposit accretion could happen.

**Fee income –** Traction in fee income is likely to sustain as current revenue stream does not include any offs or pre-booking.

- Corporate fees during 9mFY21 is already 80% of FY20 fees despite decline in corporate assets, clearly reflects FBs redefined strategy yielding positive results.

Focus is to deepen relationship with existing customers by providing differentiated products.

- FB is 5<sup>th</sup> largest player in Debit card spends after ICICI, HDFC, Axis and Kotak. It was 1<sup>st</sup> Bank in the country to launch 1<sup>st</sup> contactless debit card.
- Improved cross-sell, success on corporate side strategy and higher gold loan disbursement is driving core fee income.

### **Credit growth -**

- Full year credit growth is likely to remain at 8-10% in FY21e driven by Retail loans while growth in corporate portfolio would be subdued as it would avoid thinly priced assets.
- Growth in focus areas is tracking well and disbursements in these portfolios are already at 110-120% of Jan'20 level. LTV in Gold loan is 72%.
- CV and MFI to take some more time given current market conditions.
- Credit card is likely to launch in March-April'20 but initially would be offered to existing bank customers. Current customer base stands at 8mn.
- Total disbursements under ECLGS stands at Rs26bn with large part disbursed under ECLGS 1.

**Capital Raising** – Business model doesn't consume more than 20-30bps of capital every quarter hence not very keen to raise capital in 1HCY21.

## **Federal Bank Q2FY21 Earnings Concall Takeaways**

**Opening Remarks** – Q2FY21 strong performance was is not one-off in nature and was largely driven by structural reforms they were doing over past couple of years in terms of deposit pricing, portfolio realignment and building state-of-art digital platform.

**Outlook** – They strongly believe worst is over in terms of economic activities and it is picking up in terms of volume with every passing month. Overall they expect credit growth to remain at ~8% in FY21e and select segments like Gold loan etc. to grow much faster.

### **Asset quality** –

- Asset quality improved sequentially with GNPL ratio falling to 2.84% in Q2FY21 from 2.96% in Q1FY21 but management's intend to build provision buffer amid Covid19 related uncertainties helped NNPL ratio falling to >1% from 1.2% in Q1FY21. Provision coverage ratio (ex-write/off) improved to 66% from 60% in Q1FY21.
- It created additional Covid contingency buffer of Rs4bn in Q2FY21, taking total Covid19 buffer to Rs5.9bn or ~50bps of loans.
- Fresh slippages in Q2FY21 remained almost nil due to Supreme Court restriction in recognising NPL before 2<sup>nd</sup> Nov'20.

- Recoveries were lower at Rs1bn vs normal run-rate of Rs2-2.5bn per quarter, it expects recovery to improve materially in 2HFY21e.
- Book Review – It conducted frequent review of Commercial and corporate portfolio during last 4 months and interestingly one common trend is borrowers has started utilising liquidity buffer, which they created during early lockdowns, to service debt. Currently, couple of accounts are under watch-list.
- Management highlighted that one should not read too much into improvement in moratorium book as it believes Tail-risk is biggest risk and Q3FY21e will be most challenging quarter for Banking industry.

**Stress- case analysis mandated by RBI** – Regulator has advised every banks to conduct stress test and submit report to RBI in April and June'20 with prior approval board. While there are no fixed parameters provided by RBI, Banks are free to build model based on their portfolio behaviour in past and current uncertainties related to Covid19.

As per stress-case analysis, though management has not provided any credit cost numbers, it qualitatively highlighted that bank is well positioned to navigate current uncertainty without raising fresh capital.

**Margin expansion (6bps QoQ) in Q2FY21** was mainly driven by A) strategic re-design of business mix with desired segments showing traction even during current period like Gold loan, B) Calibrated growth in lower yielding Home loan/Corporate book and C) strong traction in CASA.

**Deposit** – Deposit franchise of FB continued to remain strong as reflect in strong accretion in CASA deposit in Q2FY21. CASA grew by 6% QoQ driven by 12% QoQ in CA accounts followed by 5.4% QoQ growth in SA accounts. Notably, SA rate offered by FB is amongst lowest in the industry, speaks for its robust liability franchise.

#### **Credit growth -**

- Currently not focusing on any inorganic opportunity.
- Management expects credit growth in FY21e to remain at 8-10%, subject to economy does not deteriorate further, backed by its ability to gain market share on consistent basis.
- **Sector-wise** – Known sectors like Tourism, Travel, Hotels etc. is facing cash-flow challenge while Food processing, Textile is doing better.

#### **Moratorium**

- Portfolio behaviour of customers opting for Morat is as per expectation – but strongly believes it's too early to extrapolate improving trend to final asset quality picture as it believes Tail-risk is the biggest risk and behaviour of Tail portfolio will be highly unpredictable. On a positive side, portfolio under Morat 2.0 fell to 24% from 35% earlier – while arriving at Morat 2.0 it ignored customers who have paid partial EMIS and deducted the ones who had cleared all dues. Including partial repayments, portfolio under Morat 2.0 would be 11/12% vs 24%.
- No change in internal credit rating of customers who opted for Morat but will reconsider rating once Morat lifted. Currently not lending much to customers under moratorium.

- While Retail moratorium appears higher at 33%, despite home loan contributing 48% to total Retail portfolio, detailed break-up of book under moratorium gives comfort.
  - Home loans - ~15% of customers has 3M EMIs, ~25% has 2M EMIs and ~67% has 1M EMIs in liability account.
  - Personal Loans - ~83% of customers has 1M EMIs and ~40% of customers has 2 or more EMIs.
  - LAP - ~65% of customers has 1M EMIs and ~35% of customers has >2 EMIs.

**Behaviour of customers opting for CGTMSE scheme** - ~70/75% of eligible customers are availing funding under scheme – It disbursed Rs10bn as of June'20 and Rs12.5bn as on 12<sup>th</sup> July'20. Few Account-wise analysis suggests that few customers are utilising financing under CGTMSE to reduce exposures.

## HDFC Bank Q3FY21 Earnings Concall Takeaways

### On economy

- Tailwind of festive season provided good economic relief. Economic recovery to further gather pace in Q4 – rural to perform better than urban.
- GDP growth to turn marginally positive at 0.5% and recovery to 1% in Q4FY21. Expects GDP growth of -7-8% for full year FY21.
- Systemic liquidity remains high – central deficit to raise to 7.6% of GDP. Combined Center + state is expected to be 12.3% of GDP.
- Association with CSC is helping in making inroads in semi-urban and rural economy – 13.5k business correspondents

### With respect to collection efficiency and demand resolution

- Demand resolution is amount demanded during the month and collected during the month.
- ***For retail portfolio - In September – 95% demand resolution and has improved to 97% in December (similar to October) – pre-Covid it was 98% plus.***
- Cheque bounce rate improving MoM and once again gravitating to pre-Covid levels.
- Collection resolution (cases that have bounced) is also improving MoM – and is better than Pre-Covid (except for higher bucket where it is not above Pre-Covid)
- In agriculture segment, things are getting better than historical levels.
- Recoveries have been a pleasant surprise – has been 15% higher than pre-Covid level.

### On restructuring

- ***Restructured assets at 0.5% of advances*** – predominantly retail – some documentation pending pipeline might get executed in January but not a significant number at all.
- Customers who have applied were accepted to a larger extent – it was done on customer's request and what they wanted and not bank's view on how asset would perform. Hence there would be some overlap with proforma NPL.
- Distressed asset sales – do examine if sale can provide better return than its own recovery – in recent quarters growing seeing interest from participants to buy retail distressed assets – and the bank has sold down some retail assets.
- Bureau scores on new acquisitions across all products – is much higher than the industry average. In unsecured it is 45 whereas rest of the market would be 35 and in secured it is 43 vis-à-vis 33% as industry average.

### On GNPLs and credit cost

- ***GNPLs due to SC's interim order of not tagging standard accounts as NPL, declined QoQ to 0.81% (from 1.08%).***

- Had bank recognized those accounts on prudent basis as well as accelerated recognition using analytical models, still GNPLs would have been flat at 1.38%.
- **Annualized proforma slippage ratio at 1.67% for 9MFY21 and in Q3FY21 was Rs49bn (1.86%). Write-offs were Rs**
- GNPLs excluding agri would have been 0.8% and on proforma basis at 1.2%.
- Credit cost came in line with expectations at Rs34bn (1.3%) with Rs24bn created towards contingency buffer and Rs6.9bn being specific provisions – this contingency provisioning will be reversed to specific provisioning once court order is lifted.
- **Total credit cost for Q3FY21 was 1.25% (compared to 1.4% for Q2FY21)**
- **With this, bank now carries floating provisions of Rs14.5bn and contingency provisions of Rs86.6bn – cumulatively ~90bps of advances.**
- Specific loan loss provisions would have been higher 1.16% (compared to 0.91% in Q2FY21).

#### **On wholesale business underwriting and rating profile**

- Wholesale is reasonable large and continues to grow well.
- Growth coming from well rated public and private enterprises and achieved the growth with no dilution of credit standards
- Internal rating scale – more universal adoption - mapping on this than external rating – **average has been 4.37 – incremental portfolio also coming at this average – this corresponds to AA and AAA rating. Marginal improvement to steady.**
- 68% is rated HDB -5 and above
- 79% (75% earlier) of externally rated portfolio are AAA and AA **and 90% plus if we include A as well.**
- Unsecured portfolio is weighted at much low level coming at 3.4 (3.5 in Q2FY21).
- Not much difference in reported and proforma GNPLs in wholesale book.

#### **On MSME**

- Fairly good ability to manage MSME – June onwards there has been a strong bounce back and **business receipts into customer accounts have been growing (receipts 14-15% higher than February numbers)**. This is line with broader recovery in GST collections.
- 30+ has shown improving trend MoM and FITL in SME book is 0.74-0.75%.
- **Stress test on this book which initially suggested 9% would be under stress – came down to 3% in Q2FY21 and today only 2.3% is expected to be vulnerable.**
- Utilization of limits has been fairly stable at low 70%.
- SME portfolio diversification – continues to remain highly diversified. All industries except agri (due to PSL) is less than 5%
- Delinquency trend has shown improvement across all buckets

- Self-funding from SME promoters, family and personal wealth – more of a liquidity (not security) – it has only seen increased outstanding – this is over & above, 85% collateralization (has been steady).
- Behavioural scores beyond customers' balance sheet have been very comforting

#### **Growth in Corporate and SME/commercial banking**

- Continue to track better on business origination front.
- Collections of large corporates through its cash management were up 11% YoY (in December itself it was higher 20% YoY)
- ***Customer assets – corporate banking – mid single digit growth QoQ – YoY growth remained more than 40%.***
- ***Business banking high single digit QoQ and high teens YoY***
- Market share shift – adherence to institutionalize process – full suite of products.
- ***20% ECLGS with various modifications has helped stabilize MSME segment – in ECLGS 1.0 was dominant as it was general (Rs221bn) but in ECLGS 2.0 as it was for stressed sectors (Rs5.79bn across 58 customers)***
- First half will be support from government initiatives and capex

#### **Growth in retail assets**

- ***Retail advances grew by 5% YoY and 4.3% QoQ***
- Retail assets momentum getting back to pre-Covid levels – ***disbursements were flat YoY and up 40% sequential.***
- 11 sub-segments in total – this quarter as well is mirroring double digit growth on disbursements – December to December as well seeing double digit growth
- Home loan also seeing substantial growth – stamp duty relaxation in some state and low interest rates supporting the growth
- Gold loan – sizing up distribution network
- Auto loans – started inching on growth path
- On unsecured – increased sourcing from internal customer and government employee contribution is now double digit.
- In MFI – deliberately taken cautious and guarded path – however with improving collections will resume operations Jan onwards

#### **On NIMs**

- Net interest income maintained momentum of 15% growth and core NIMs improved to 4.2% (from 4.1%).
- NIMs – how does it deal with in ALCO – whatever time period chose, it is always between 4.0-4.5% - settled at center of the range at 4.1-4.2% and should be very much in that range.
- Assets are priced based on cost of funds and operates within this band.

**On liability franchise**

- Sustained efforts on customer acquisition – 20% growth in savings account acquisition, 15% growth in current account customers. Added 2mn new liability relationship during the quarter.
- Liability and personal loan accounts are on-boarded online.
- Retail constituted 80% of total deposits and 100% of incremental deposits.
- CASA ratio is 43%
- CD ratio at 85%

**On technology outage**

- Several action plan relating to strengthening of disaster recovery plans – some are long term (12-18 months) but there are many immediate action plans that might take 10-12 weeks.
- RBI would regularly inspect the progress.
- In terms of card accounts – liability acquisition is not hindered (2mn opened in Q3 compared to 1.8mn in Q2, 1.6mn in Q1)

**HDB Financial**

- ***Disbursements were flat YoY/23% QoQ***
- ***Provisions were Rs8.2bn and reported a loss of Rs443mn. No benefit of standstill taken in P&L.***
- Has given impact of Supreme Court order and held status as standard. Stage-3 assets 2.7% - proforma would have been 5.9% (5.1% in Q2FY21)
- CAR of 19.5%

**On RBI's ownership and corporate structure guidelines**

- Still in working paper form where in suggestions had to be given. Not a final guideline as yet.

**Other highlights**

- Staff count – 1,17,560 – addition of 3.5k in last one year
- Bank generated net capital of 40 bps
- Interest reversed on proforma slippages
- LCR at 146%
- CAR 18.9%; CET-1 at 16.8%

## HDFC Bank Q2FY21 Earnings Concall Takeaways

### Mr. Puri farewell remarks

- It has been pleasure interacting with all stakeholders all through the career.
- Thrilled in handing over to Sashi, HDFC Bank team and every employee. Team, technology, market and stakeholders support will take it further.
- Everyone has promised to carry on the legacy and deliver on the promises made. Legacy is there for a long time and not short time.
- Everyone got increments, bonus, promotions.
- Will dominate the market particularly semi-urban and rural areas.

### CEO Mr. Sashi Jagdishan's opening remarks

- **Q2FY21 was more positive than it has experienced in Q1FY21.**
- Intensity of activities have moved up – rural economy is reasonably buoyant.
- Large companies in manufacturing not seeing any substantial reduction in payroll – and this is where their portfolio is concentrated.
- Customer acquisition continues to be key focus areas – 1.8mn new liability accounts due to digitization efforts.
- Step up in cards business – now back to 90%.
- Retail assets have got hit in Q1 – now showing signs of recovery – disbursements back to 80-85% in Q2FY21.
- Wholesale banking segment – within that corporate credit going very strong - 40% YoY/3-4% QoQ.
- Festive treat 2.0 – aggregated far more and better offers - 2 weeks or so it has been running and response is encouraging – all equipped to manage huge flows and volume in this festive offer – be it the spend through programs on Amazon or branch activity etc.

### With respect to moratorium, collection efficiency and demand resolution

- Moratorium is over and behind and hence not sharing August end number – everyone has different disclosure; so should not confuse everyone.
- **Potential restructured book – would not want to put a number to it but it has always been extremely conservative.**
- Demand resolution is amount demanded during the month and collected during the month.
- **For retail morat portfolio - In September – 95% demand resolution and will improve to 97% in October – pre-Covid it was 99%. For whole book, it would be more or less the same.**
- **For retail mon-morat portfolio - demand resolution is already 99%.**
- **In End-Feb and early March had done stress testing the SME portfolio in high, medium & low level – it seemed 9-11% of customers would face difficulty in servicing in April. Now has benefit of hindsight – seems extremely conservative estimate and 30dpd + identified stressed accounts**

***now it's down to 3% range. All relationship accounts, ECLSG benefited – so should improve further.***

- ***In corporate banking - Q2FY21 collections were higher than Q2FY20 and 41% higher QoQ – September were higher 14% from last September.***
- Recoveries have been a pleasant surprise – across the board higher than pre-Covid level.
- Bounce trend is encouraging – getting to pre-Covid level.
- All SMA-0/1/2 in retail will be negligible – 5% plus or minus 1.0-1.5%

#### **On GNPLs and credit cost**

- ***GNPLs due to SC's interim order of not tagging standard accounts as NPL, declined QoQ to 1.08% (from 1.36%).***
- Had bank recognized those accounts on prudent basis as well as accelerated recognition using analytical models, still GNPLs would have been flat at 1.37%.
- GNPLs excluding agri would have been 0.9% and on proforma basis at 1.2%.
- ***Credit cost came in line with expectations at Rs37bn (1.45%) with Rs23bn created towards contingency buffer and Rs12.4bn being specific provisions (taking coverage up to 76% from 72%). Incremental Rs11.3bn on stress not recognized due to SC directive and balance Rs11.5bn towards any contingency.***
- With this, bank now carries floating provisions of Rs14.5bn and contingency provisions of Rs63bn – cumulatively ~70bps of advances.
- Specific loan loss on proforma would have been 91bps
- ***Provisioning is more than sufficient and has enough cushion to buffer any contingency – will not be apologetic in creating counter cyclical buffer.***

#### **On wholesale business underwriting and rating profile**

- Wholesale business – achieved the growth with no dilution of credit standards
- Internal rating scale – more universal adoption - mapping on this than external rating – average gas been 4.4 – incremental portfolio also coming at this average – this corresponds to AA rating. Marginal improvement to steady.
- 75% of externally rated portfolio are AAA and AA and 93% if we include A as well.
- Unsecured portfolio is weighted at much low level coming at 3.5. 55% lower probability of default
- Utilization has been fairly stable at 70%
- SME portfolio diversification – continues to remain highly diversified
- After moratorium is over, now seeing mean reversion – normalizing those levels in internal calculation and back to 100% normalization in next few months.
- Self-funding from SME promoters, family and personal wealth – more of a liquidity (not security) – it has only seen increased outstanding – this is over & above, 85% collateralization.

#### **On retail banking underwriting standards**

- Demand for credit is available for all retail products. However, it is on-boarding after reverting some underwriting standards that were strengthened.

- In 2-wheeler and tractors, it is mean reversing.
- Unsecured it was always stringent.
- Lower end of personal loans is not yet opened up.
- Self-employed, commercial transportation – remains tight
- Agricultural portfolio – has done rather well – rather good period with better Kharif sowing
- MSME portfolio – similar impact like demon where it took 6-months' time – it should not take that long – good in terms of culture and some are genuinely suffering.

### **Growth in Corporate and SME/commercial banking**

- Normalization was reflected in new to bank – disbursements in 2.5x QoQ
- Customer assets – corporate banking – low single digit growth QoQ – YoY growth remained more than 40%.
- 70% growth in disbursements on YoY as well as QoQ were for loans less than one year
- Healthcare finance book – grew in high single digit QoQ
- Market share shift – adherence to institutionalize process – full suite of products.
- Building a digital healthcare ecosystem – launched last Wednesday
- Worst segment i.e. MSME segment has got great relief from ECLGS scheme – has covered 55-60% of total eligibility

### **Growth in retail assets**

- 11 sub-segments in total and overall seeing double digit growth
- Retail advances grew by 2% QoQ and 5% YoY
- Back to 90% pre-Covid level and will see growth QoQ
- 5 trends driving economy and business – infrastructure, semi-urban and rural, digital, healthcare
- Ability to go micro and decipher the trends and behaviour
- Unsecured lending should be back to pre-Covid in October
- Surge in gold loans to almost 60% YoY
- Cautious on MFI and expects full scale recovery in 90 days
- 2-wheeler sales – led by rural demand

### **On overall portfolio growth**

- As highlighted, advances grew 16% - as anticipated retail loan growth further moderated to 5% (from 7%) and growth in wholesale advances growth >27% YoY (from 35% in Q1FY21).
- Significant opportunity to automate – physical to digital journey – distinct experience
- New normal capital, digital journey, data decipher – will emerge winner and robust growth

- Growth trends are encouraging in retail and SME – some tepidness in corporate banking. Should now track growth sequentially – H2FY21 GDP trajectory will be better. Will be nibbling away market share.

#### **On NIMs**

- Net interest income maintained momentum of 17% growth and as anticipated core NIMs declined to 4.1% (from 4.3%).
- Banks average liquidity ratio increased to 153% to strengthen liquidity position – has impacted current NIM by 15 bps and hence NIMs came down to 4.1%.
- Yield in corporate banking were up YoY as well as QOQ.
- NIMs – how does it deal with in ALCO – whatever time period chose, it is always between 4.0-4.5% - settled at lower end of the range at 4.1% and should be very much in that range.
- Deposit and asset pricing are considered to keep in that range.

#### **On fee income**

- Fees and commission income impacted by Rs70 mn due to Covid. Fx and derivative
- Core fee income regained the entire lost momentum – almost flat YoY (up 77% QoQ) – last quarter it highlighted it lost Rs20bn of fees due to lower activity levels which seems to recovered to the extent of 90% plus.
- Monetized some portion of gains from excess liquidity requirement – led to investment profit of Rs10.2bn

#### **On operating cost**

- Cost to income ratio was 37%
- Strong control reflected on operating expenses and opex was in line with expectations– flat YoY (merely up 3% QoQ even on a low base) – cost to income at 35%.

#### **On capital raising**

- Bank generated additional capital of 36 bps. Internal generation is good enough to support growth

#### **HDB Financial**

- Advance growth is 2% as there is caution
- Sales force is directed towards collections
- PPOP is robust but has taken elevated provisioning on account of which PAT is 10% growth.
- Following provision as the banks do and not the NBFC industry does.
- Gone into gold, MFI, car loans and few more new products.

## IndusInd Bank Q3FY21 Earnings Call Takeaways

### Management commentary

- Rural demand continues to show robust growth; urban demand has also picked up
- GDP is expected to turn marginally positive. Liquidity continues to be abundant with stable interest rate outlook
- Unsecured retail saw slightly higher than expected stress

### Planning Cycle -5

- With economic revival all around, it presents strategy for next 2 years
- Thrust on retail deposits
- Affluent, NRI, GIFT City will be scaled up - Affluent AUM has grown 20% QoQ and NRI liabilities grew 12% QoQ
- PPOP margins to be maintained above 5%, RoAs in the range of 1.4-1.7%
- Loan growth of 15-18%

### On stress pool

- **Proforma slippages of Rs25.08bn bn (1.2% of the loans) – 20% from MFI, 20% from vehicle, secured retail 15%, unsecured retail 30% and corporate balance 15%**
- Made significant provisioning on proforma GNPLs with PCR at 77%
- **Restructuring invoked would be 1.8% (of which 60 bps is already approved) - Vehicle 30%, non-vehicle retail 13%, balance from corporate banking – no restructuring in MFI segment**
- DCCO extension is in single digit of residential exposure and not material in overall scheme of things
- SMA-2 book was 39bps

### On provisioning - carrying total provisions of 3.31% of loan book.

- Specific provision of Rs23.6bn (towards PCR for reported GNPA)
- Provision of Rs32.6bn related to COVID-19 of which: of this, counter-cyclical Rs7.6bn (towards PCR for reported GNPA, contingent provisions of Rs15.35bn (towards PCR for proforma GNPA) and balance standard provisions of rs9.7bn
- Floating provisions of Rs700mn other than related to COVID-19 (towards PCR for reported GNPA)
- Standard asset provision of Rs10.15bn other than related to COVID-19
- Other provisions of Rs1.5bn on standard assets
- Comfortable with provision looking at the stress book – have provided 100% on unsecured retail lending
- **Will continue to be conservative as a bank and provide ahead of the curve. Will not rush into profitability before getting comfortable on more than adequate provisioning**

- Will provide some more in Q4FY21 and if things stabilize should see normalization in FY22.

#### **On corporate banking**

- Granularizing the exposure – reduced exposure to the tune of Rs40bn
- Corporate portfolio is near bottoming out and should start seeing growth in coming quarters.
- Growing in supply chain, logistics, working capital on MNC side, gems & jewellery.
- On the corporate side, whatever restructuring was to be invoked is done – however for some approval is pending
- ***No addition to stress name – BAU slippages of Rs3.8bn and it is getting more and more confident about the stability about this portfolio***
- Restructuring in corporate segment of Rs22bn – 2 key accounts include in construction and retail industry
- Has already taken provisions on the accounts showing stress.
- ***Already witnessed Rs2.1bn of corporate recovery in Q3FY21 – there are 3/4 recoveries they are working on***
- CA deposit has gone down by Rs20bn – dividend mandate disappeared – balance amount is part of CA rationalization process - Amount moving into CC/OD
- Real estate book has shown lot of resilience

#### **On ECLGS**

- ***Cautious on ECLGS -though has sanctioned Rs48bn, disbursement was only Rs29bn – Rs21bn is in SME/business banking, Rs8bn in retail segment (including CV etc.)***
- Assessment was done based on the viability of the business

#### **On retail portfolio**

- Asset growth – maintain focus on secured loan growth
- Vehicles and MFI have disbursements returning to pre-Covid levels
- MFI will continue to remain mainstay of rural banking
- Scaling up areas of domain expertise – vehicle, MFI, Gems/jewelry. Also will scale up tractor finance and affordable housing
- Focus on customer centricity
- Has not bought or sold any retail portfolio

#### **On microfinance**

- ***Proforma slippages in MFI is 2% - entirely provided for***
- ***MFI improved from 87.2% in Q2FY21, 91% in September, 93% in October, 94.4% for Q3FY21 and 95.5% in Jan YTD – amongst the few to show this robust levels***

- BFIL has been ahead of the curve in reducing the exposure – West Bengal is 13% and ticket size is reduced to Rs12.6k
- In Assam too it has reduced the exposure to Rs450mn.
- In MFI - Rs4.7bn of proforma slippages and another Rs1-1.5bn in Q4FY21
- Uniqueness of portfolio – wide spread presence, low ticket size, weekly collections, robust appraisal, experienced management team etc.

#### **On vehicle finance**

- One of the dominances and despite cycles, have always performed well
- Growth coming in all sub-segments - Disbursements are near to last Q3 (in last Q3FY20 was Rs90bn and now it is upwards of Rs80bn)
- Tractor growing at 12%, 2-wheeler, car, CE – 5% QoQ
- Vehicle utilization is improving MoM – some issue on viability due to increased diesel price but that should get addressed with freight rate.
- Portfolio should behave to its historical track record
- ***In vehicle finance - Slippages is Rs5.02 and restructuring is Rs10.2bn (invoked on 1.7% of portfolio – primarily bus segment)***
- Collection efficiency is up from 94.3% to 96.9% - will continue to improve as it goes forward
- Freight demand and vehicle utilization will have to go up
- Will benefit from recovery in the industry

#### **Oher secured and unsecured segment**

- Secured retail assets – LAP and business banking – 1.7% slippage
- Churn is higher than pre-Covid levels
- ***Proforma GNPA's in unsecured segment was 9% compared to 5% (normalized)***
- ***30% of proforma slippage flowing from unsecured (compared to 4% of the book)***

#### **On NIMs**

- NII up 11% YoY – conservatively reversed interest income to the tune of Rs1.85bn
- Irrespective of getting advantage of deposit cost, NIMs will remain in 4.1-4.2%
- Want to remain active in working capital that garners higher yields
- Domain specialization businesses yield would be range bound – CV yields were affected by interest reversals on the book due to proforma slippages
- Not being too competitive in wholesale purely on rates – it is always assessed as relationship and wallet share potential - will sacrifice margins on corporate only if it feels it garner a higher wallet share through that relationships

**On fee income – PSLC one off of Rs590mn**

- Core fee income grew 38% QoQ, albeit down 8% YoY
- PSLC income of Rs590mn supported general banking fees – else general banking fees would have been flat to down YoY/QoQ. Loan processing fee grew 42% QoQ.
- Distribution fee is gaining momentum – investment banking fee continues to be volatile.

**On deposits**

- ***Deposit momentum still continues to be strong – 5% QoQ growth, sustaining YoY growth to 10.6% (even on high base).*** YTD now deposits have grown by 19% since March (after witnessing decline of 7% in Q4FY20). IndusInd Bank has kept its peak FD rates elevated which is paying off in terms of inflows.
- Proportion of retail and small business deposits as proportion of overall deposit is up >270 bps to 35.9% (from 33.1%/31.9% for Q2FY21/Q1FY21) and CASA ratio was up sustained at 40.5%.
- CA proportion has declined to 13.5% from 15.3% (need to understand if its technical blip or structural due to current account discipline guidelines).
- ***Has resumed branch expansion – aims to add 500 branches over next 2 years***
- Seamless NR account opening
- Cost of deposits fell by 24 bps QOQ and 74% YTD
- Continue to maintain excess liquidity of Rs350bn

**Other highlights**

- CRAR – 16.9% - reflects efficient capital management
- SEBI has granted permission till 18<sup>th</sup> February for subscription to warrants by the promoters – will be infusing Rs20.7bn equivalent to 75bps to CET-1
- Have assessed social security code provisions in employee cost and will make the provisioning in Q4FY21 – not very significant

## IndusInd Bank Q2FY21 Earnings Concall Takeaways

**Management commentary**

- In H1FY21, focus was on balance sheet realignment. Now in H2FY21 will focus on scalability
- Asset growth is coming back – retail segment – especially MFI, vehicle, secured assets

**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.**
- **MFI business collection efficiency improved to 93% in October from 91% in September and expect it to cross 95% soon**
- Corporate segment collection efficiency stood at 100% in September.

#### **On restructuring**

- **Application for restructuring is minimal (5bps as of now) and will use restructuring only for viable customers and will make provisions**
- **Potential low single digit restructuring as per data analytics** - possible in luxury buses, hotels & educational institutions
- This restructuring cycle will have better outcome than the previous one for the entire banking system
- **There is stress emerging in two real estate projects consisting of Rs 5bn exposure; however, both of them are well collateralized and bank might look for restructuring**

#### **On asset quality**

- GNPA would be at 2.32% including standstill
- SMA-1 at 23 bps and SMA-2 at 10bps (this is for corporate book) as of Sep'20
- Bank had zero slippages from corporate book during the current quarter
- **Deductions from GNPA is largely on account of write-offs for a fraud account, upgrades in vehicle finance business & from recoveries in three corporate accounts. This resulted in negative net slippages**
- **Exposure to high risk segment like real estate has been reducing**

#### **On provisions**

- **Bank wants to be very conservative as far as provisioning is required.** Bank made additional covid provision of Rs 9.33bn during the quarter taking total covid provisions to Rs 21.55bn (1.1% of loans)
- Excess provision on unsecured, MFI, vehicle and wants to flatten the curve – keep buffer to take care of any contingencies
- **Standard and other provisions are 2.4x of net NPA**
- Provisions for Q2FY21 at Rs 19.72bn & slippages stood at Rs 3.99bn, (slippages including standstill at Rs 6.18bn or 30bp of loans)
- **Can't give guidance on credit cost or restructuring since bank would have to want to review ICA data**
- Bank has provided a little more on microfinance since collection efficiency was low at 91% though it has improved to 93% now
- Bank wants to operate at higher PCR level going forward

**On microfinance**

- 5 key states re-imposed lockdown and as a result, collections were impacted in August
- ***Customers who have not paid single EMI from May to October is 0.8% of the book***
- Disbursements stood at 85% of Mar'20 levels
- Mfin recovery team is doing 800 hrs of call through contact centers on a daily basis

**On vehicle finance**

- Collection efficiency at 94%
- Economic activity is improving every month
- ***Sep disbursements at 80% of pre-covid levels and 85% of last year Q2FY20***
- ***Improved market share in all the segments of vehicle finance***
- Even in CV, portfolio grew on QoQ basis
- Expect growth to accelerate in H2 driven by CV segment

**On credit profile**

- During Q3, there would be a large credit growth than seen in the past few quarters
- 2W, cars, tractors, CE and secured non-vehicle retail saw credit growth during the quarter
- Non CV segment which is made of 5 products namely 2W, car, tractors, affordable housing will show credit growth
- ***In a nutshell, more granular, more secured and short tenure loans will happen on the asset side***

**On other retail assets**

- SME will be the key focus area of the bank
- Continue to be cautious on unsecured loans and will remain below 5% of the total book for the bank

**On ECLGS**

- Disbursed Rs 16bn through ECLGS
- Secured retail disbursements is getting back to pre-covid levels

**On large corporate**

- ***Bank would prefer highly rated corporate and wants to lend more towards working capital with granular book***

**On Gems & Jewellery portfolio**

- No slippages have been reported till date
- Exposure to domestic jewellery business is limited

**On Liability profile:**

- **Accelerating deposit traction, crossed 8% QoQ deposit growth**
- Retail TD grew by over Rs 80bn - Digital acquisition is 2x; Physical acquisition is 80% of pre-covid; 91% of FD's were digitally sourced
- Ranked first on digital payment and initiatives by Gol
- Saw momentum picking up in NRI segment. Liability reached Rs 210bn from this segment
- Reduced constitution of CD to 5% from 13% YoY
- Surplus liquidity of Rs 400bn deployed in reverse repo and excess SLR

**On capital raise**

- Rs 32.88bn of capital money was received in September which improved CRAR to 16.56%; CRAR including profit stands at 16.87%

**On NIMs**

- NIM fell 12bps QoQ due to excess liquidity (**negative impact of 10bps**). Expect margins to normalize as asset growth picks up and would be range bound (4.1-4.3%) in the coming quarters
- **NII grew 13% YoY despite lower credit growth due to fall in deposit rates**
- **Cost of deposits dropped 15bps QoQ and 47 bps cumulatively in H1FY21**
- Will steadily reduce TD rates from Q3 onwards

**On fee income**

- Robust fee growth of 56% QoQ on account of strong pick-up in retail fees
- Bancassurance is very critical component of banks fee income
- With two prominent partners in bank's fray namely ICICI Pru Life and Bajaj, bank believes that there will be excellent scale-up in this business. As a result, distribution fees will continue to grow.
- Distribution fees can result in the near future can be ~55% of total fees from ~48% currently
- Investment banking fees remained subdued due to lower activity
- Bank has decent MTM gains on treasury book

**Other highlights**

- Rolling annual performance appraisal cycle for its employees
- 90% acquisition is done via digital
- Launching vehicle finance and SME portal shortly
- Bank is ready for credit growth backed by vehicle finance, CV, microfinance and secured retail along with corporate

## Karur Vysya Bank Q3FY21 Earnings Concall Takeaways

### Opening remarks

Management remained focus on pursuing growth as reflected in 9% YTD credit growth (ex IBPC) vs negative 4% growth in FY20. It targets 12% credit growth in FY22e driven by Retail (Home loans, Gold loans and LAP) and SME. Would continue to follow a cautious approach in the growing corporate book.

It believes the bank is very well equipped with adequate manpower and Infrastructure, from Q4FY21e onwards it will start pursuing growth aggressively but in a calibrated manner. Investments made towards process realignments, strengthening manpower and digital platform during the past three years is likely to help the bank push for growth in near-term.

With surplus liquidity on the balance sheet, it had strategically chosen not to grow TD aggressively but with a focus on grot coming back, it will start mobilizing TD and will re-look at pricing if needed. The same might have an adverse impact on Margins going ahead.

### **NEO (non-branch channel) crossed AuM of Rs10bn.**

#### **Asset quality.**

**Proforma slippages** – Proforma slippages stands at Rs8.85bn of which Rs4.75bn from commercial segment, Rs1.63 from Retail, Rs0.5 from agriculture and Rs1.94bn from corporate account. ~90% of proforma slippages came from Moratorium book.

Expects full-year slippage to remain at ~2.25% as guided earlier, translating into ~Rs3bn slippages in Q4FY21e.

**Recovery** - The texture of current stress is relatively better (mostly from SME and Retail Home loan & LAP segment) than what the bank had faced earlier during the corporate NPA cycle. Looking at LTVs and the quality of collateral, it expects the recovery to span out better than historical trends. Recovery is expected to pick up from Q4FY21e onwards

**Restructuring** – Continue to maintain the same restructuring guidance at ~2.25%. As at Dec'20, total restructuring stands at Rs6.8bn or 1.3% of loans. Restructuring Pipeline stands at Rs2.95bn (~60bps of loans) from corporate segment. The incremental restructuring was mostly from Home loan and LAP segment (self-employed segment). Its HL & LAP portfolio is split between 60% self-employed and 40% salaried class.

SMA30+ stands at 2.42%, excluding proforma slippages.

#### **Provisions & one-offs.**

Bank provided total Rs1.7bn towards wage revision and gratuity, leave encashment etc. Of which it provided Rs1.35bn in staff cost and rest Rs0.40bn in Other provisions.

Covid buffer – Total covid buffer stands at Rs3bn, including Rs0.80bn it created in Q3FY21 and Rs2.2bn it was carrying as at Sep'20. If adjusted for proforma slippages, covid provision buffer will fall to Rs1.65bn. Additionally, it carries a provision of Rs0.58bn towards restructuring.

**Collections (ex Gold loans)** – Collections for Oct'20 in Term loans improved to 97.5% in Jan'21 from 87.5% in Oct'20, suggesting the bank is able to recover almost 10% from SMA pool over three months.

Dec'20 collections stand at 90% (improved to 94.5% in Jan'21) in Term loans and 94% (improved to 96.4% in Jan'21) in WC loans. Looking at the current collection trend, it does not foresee any risk to its slippage guidance of 2.25% and restructuring guidance of 2.25%.

**Fee income** – Management is actively tracking the fee income stream and plans to improve it going forward. Currently, it is in process of revamping its CRM which will be ready by Feb-March'21. Post revamped CRM, it will have a poorer track and will further improve its cross-selling capabilities.

**Credit underwriting** – Small business loans Upto Rs20mn is completely digital based on a scorecard with no scope of judgment based lending. It has also set up a separate risk department, all loans above Rs5mn has to go through a screening under Risk department. Scorecard is developed with the help of BCG and speared across 24 sectors.

## Karur Vysya Bank Q2FY21 Earnings Concall Takeaways

### **Opening remarks** –

**Update on Covid** – All branches are functioning as of now. BCP plans worked well. Transaction level has already reached pre-covid level with higher share from digital channels.

### **Business strategy** -

**Liability** – Increased focus on expanding CASA and further improving the share of Retail deposits. It has beefed up the liability team and strengthens field staff by providing necessary training and realigning incentive structures. Further, in the process 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 the corporate segment is Rs0.38bn. Going ahead, they will grow CIG books 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 platforms will help these selected branches to grow commercial books at a faster pace.

**Retail** – Completely digital platform with TAT at less than 15 minutes.

Co-lending platform – Plan to partner with few players to deepen its geographical presence.

**HR** – 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.

**Opex** – Tight control on opex. Investment phase is over now only recurring expenses to hit the P&L.

**Cross-sell** – Increasingly focuses on mining existing customer base, working on building a strong MIS system, most likely to complete by Dec'20. CASA expansion from 28% to 34% over the past few years reflects the strong customer loyalty towards KVB brand.

**Jewel loan** – Gold loans contribute ~22% of 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 is also payable at the end of tenure. Key competitors are PSBs. Yields are 8.5% in Agri gold loans while in personal gold loan rates are higher at 8.5%.

**ECGS** – It disbursed Rs16bn. Only 62% of total eligible customers have opted for loans under ECGS. They expect a 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.

Collection – Better than expectation. Collection efficiency at portfolio level remains strong at 95%. Collection in non-morant is extremely overwhelming with 100% collections in CIG and Commercial segment and 99% collections in Personal loans.

**Restructuring** – Requests are tepid as of now, 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.

## Kotak Mahindra Bank Q3FY21 Earnings Concall Takeaways

### CEO remarks and commentary

#### On macro-economic variables

- In H1CY21 is going to vaccine – its effectiveness and efficacy. Heartening to note number of cases is coming down sustainably
- ***Should see normalization of economy through 2021 and will put some demand-supply related inflationary pressures. Gradual firming up of interest rates through 2021 in India.*** Over 2021, overnight rate comes closer to repo rate and yield curve should flatten a bit (10-year can be around 6.5% some plus or minus).
- ***Will get opportunities for growth as economy normalizes.***

#### On bank and group specific developments

- Loan growth is coming back – ***warming the waters and QoQ growth is 4.5%*** - if this momentum continues, it suggests 18% (annualized) growth run-rate
- Some traction on better quality corporates; In unsecured conservative approach continues, though is opening to higher end of the segment
- ***Proforma GNPLs have risen from 2.7% (Rs55bn) to 3.27% (Rs70bn). With zero slippages, marginal write-offs and recoveries/upgrades of Rs4bn, proforma slippages for Q3FY21 were Rs19-20bn.***
- ***Much more different picture between unsecured retail consumer (proportion is 6% of loans but delta on proforma NPLs is 40%).***
- ***Restructuring has been done for customers based on viability - Approved restructuring done or invoked is 0.29% and balance stress is flowing into 90-day bucket.*** No analytical view of classifying accounts and whatever is due more than 90 days are reflected in proforma GNPLs.
- No sale to ARC but will look at buying opportunities
- ***In secured segment – CV segment is witnessing some stress (especially bus operators) and bus segment generally forms 10-15% of CV segment.***
- ***Major stress is gone in and baked into earnings.***
- Benchmarking itself much broader on consumer plate rather than only banks and hence is going very active on digital to be faster and sharper.
- ***Corporate sector has disproportionately benefitted from very benign capital market in last nine months – equity raise or sharp accessibility to liquidity or rationalization of the cost.***
- ***Getting more comfort on risk metrics in corporate banking, it has pressed the growth engine - hence QoQ growth is 7% in corporate banking and with low deposit cost it is also now more competitive on rates.***

#### Broader strategy of banking in Kotak

- **Future of branches** – branches will be required but density of branches will be lower than pre-Covid levels; will leverage digital more
- **Evaluating very closely all productivity parameters in terms of working from home.**
- Cutting edge execution of broader framework of strategy

#### **Bank specific highlights**

- **NIMs at 4.5% but after adjusting for interest reversal, it would dip to 4.31%**
- Fees have grown 3% on YoY and 11% QoQ.
- Treasury profits have dropped to Rs1.5bn
- **Employee cost had element of pension cost in Q3FY20 and Q2FY21 that was not there in Q3FY21**
- **Operating cost has gone up due to increased spends on promotional and advertising, collections/recoveries, home loan acquisition, insurance on deposits etc.**
- No new NPA in the current quarter, any borrower who has even one account as 90 plus overdue, it has considered it in proforma – has taken provision on interest accrued but not collected for the entire period with moratorium.
- **Credit cost optically seems higher at 116bps but if interest was reversed from interest income and not from provisions, then credit cost would have been 86 bps.**
- **Provisions (including standard, UFCE and COVID related) held Rs22.6bn; no COVID-19 provisions dipped into during Q2FY21 and Q3FY21. COVID-19 provision as on Q3FY21 Rs12.8bn.**

#### **On ECLGS**

- **Disbursed close to Rs94bn under ECLGS, Rs97bn till date. Disbursed it close to 50-60% of customers.**
- **Spread across 3 businesses – small businesses in consumer banking, commercial banking and SME (lower end of corporates) – split would be 80% for consumer/commercial banking and 20% in SME.**
- **Many customers who took ECLGS benefit has lower the utilization of other limits and hence, there is not much of an uptick in the portfolio growth.**
- Win-win for all – customers get hope for survival and chance to survive, bankers get reasonable yields with security of sovereign guarantee.
- **How deep you can get into the book to find potential customers who can take sovereign backed loans – the bank deep dived into its entire pool to assess the same.**
- If ECLGS was not there, customers would have gone more vulnerable.
- If economic activity comes back to normal, portfolio will perform well.

### Nuances on loan portfolio

- **Home loans** – disbursements have increased MoM – better penetration in salaried segment – expect momentum in home loan to continue. Good mix of new sales as well as balance transfer.
- **LAP** – volumes in December are back to pre-Covid levels
- **MSME working capital** – demand for credit going up; their customers are increasing market share and hence need for credit
- **Unsecured lending** – growing acquisition MoM but slower and lower than pre-Covid.
- **Consumer durable** – significant increase in consumption spending during festive
- **Commercial vehicles** – disbursements were higher in Q3 than Q2 – capacity utilization getting to normalcy
- **Passenger transportation** utilization is low
- **Construction equipment** – demand is good and collection efficiency is back to normal
- **MFI** is mainly in non-urban areas and collection efficiency has improved
- **Tractor sales** – 17% higher than last years; disbursement up YoY
- **Corporate book** – asset quality has remained fairly stable and that gives confidence to grow at an annualized run-rate of 25%. This is in good quality corporates
- **SME** – first time after several quarters seeing uptick led by better utilization from existing customer as well as new customer acquisition.
- Grown exposure in HFC – high AAA rated HFC
- **On CRE** – seeing good traction on residential segment from high quality developers

### Collection efficiency

- ***Secured advances - collections vs. demand for Dec'20 back to precovid levels; unsecured advances - nearing precovid levels, improving month on month***
- Stabilization in collection efficiency hereon and hence now ***focus is more on collections in early buckets.***
- Write-off was very marginal this quarter.

### On digitization

- Scale acquisition
- Customer delight – be a channel, transactions, products, services
- Mobile being a preferred channel – on asset side, enables digi home loan 2.0, digi personal loans, 811 credit card
- 213 Open Banking Partnerships as of Dec'20; 7X growth in transaction volume over Q3FY20; 3.4X growth in transaction value over Q3FY20

**Kotak Securities**

- Peak margining system coupled with upfront margining system – though worry was on drop in volumes but is bringing level playing field
- Launched account opening platform where traders are allowed to trade in 60 mins.

**Kotak Mahindra Prime**

- Supply side constraints are receding and dealer inventories are relatively lower
- Collection efficiency is back to normal
- **Gross NPLs at 2.6% - proforma GNPLs would be north of 4%**

**Kotak AMC**

- Kotak MF grew AUM by 22% YoY and 12.8% QoQ – 5<sup>th</sup> largest AMC in India
- Equity AUM grew 12.8% QoQ
- Market share in total AUM grew to 7.3%
- Pioneer in responsible investing including ESG
- Relationship Value of Wealth + Priority + Investment Advisory grew more than 12% to Rs3.75tn.

**Other highlights**

- RBI's FSR estimates seems cautious and conservative and the banking system should do better than that. However, with various dispensations, still need to see the truth as to how scenario actually pans out.
- **For customers operating in SA balance of Rs0.1-10mn, it has 75bps premium to 3.25% on an average being offered**
- Prime does auto finance business and it is not done at bank – so RBI's corporate structure discussion paper would not really impact this.

## Kotak Mahindra Bank Q2FY21 Earnings Concall Takeaways

**Key message:**

- **Credit reserves not only sufficient but seems extremely conservative.**
- **It is now FUTURE READY after creating strong and sustainable liability franchise for 9 years.**
- **Growth has to be a part of bigger strategy and superior focus on execution.**
- **Strategic shift towards customer acquisition, engagement and cross-sell**
- **Collection efficiency back to pre-Covid levels in mid-90s**

**Management commentary**

- ***Financial institutions have got an opportunity to position themselves in future in never normal world***
- How resilient and flexible are institutions becomes of prime importance
- World is seeing second wave in Europe and US – India is seeing positive changes in number of active cases, mortality etc.
- ***Need to be alert and lower our guard***
- ***Excess liquidity has given a great stability to financial system***
- **Clearly and categorically it wants to state it doesn't want to comment on speculation or rumours. If there was anything to report, it would have reported to stock exchanges.**

**Key to business model**

- ***Earnings and sustainability of earnings growth*** – which depicts the ability to move forward
- ***Balance between risk and credit risks.*** Credit risk is only one lever and not the only lever.
- ***Balance sheet – growth and quality.*** As it builds asset base, it must make sense for greater customer engagement and sustainable earnings growth.
- ***Changing business model*** – digital, technology, analytics.

**Where does Kotak Mahindra Bank stands on this**

- Earnings before tax has grown by 39% and on a consolidated P&L 37% pre-tax profit growth.
- With respect to quality of balance sheet
  - Stock of provisioning it is carrying is not only sufficient but extremely conservative.
  - All cuts across various mix of secured, unsecured, wholesale/retail, rural/urban.
- Strong and sustainable liability franchise – 9 years' commitment led to 57% CASA and low cost sweep deposit at 8% (cumulative 65%) along with dramatic progress on granularity as well
  - Till now customer acquisition and ownership has started with liability accounts and then moved into to fees, assets etc.
- Kotak is very much future ready as the world continues to be new or never normal world
- ***Strategic change in focus*** - Now in addition to liability side,
  - Will focus on significant increase in asset side customer acquisition. Asset engine to broaden consumer banking and leverage to sell new products, cross-sell fees etc.
- ***Growth has to be a part of bigger strategy and superior focus on execution – customer acquisition, engagement and cross-sell.***

- **Biggest focus is customer acquisition and engagement – will leverage the engagement framework organically. Modes of customer acquisition could be physical, digital and acquiring someone else customers.**
- Medium opportunity of holistic bank on asset, liability, fee etc. Let the plan play out and give progress – both medium and long term.
- One is to build the franchise and also to be more conservative on risks.

#### **On collection efficiency**

- Moratorium-1, moratorium – 2, restructuring, SC order – this is a maze and how to decipher through maze.
- Opening up of economy – bounce rates back to pre-Covid levels and has helped resolution across all locations and product categories.
- Did deep amount of analysis of balance sheet across various asset classes – amount of provisioning looking at under-writing, quality and mix of its book – feel adequate and comfortable with provisioning it is carrying on stock basis. All provisioning put together suggest that it is conservative.
- Overall collection efficiency is closer to February – mid-90s
  - On CV/CE – September collections are closer to pre-Covid levels and will watch out for next couple of months
  - CE is behaving better than CV
  - Tractor is close to normal
  - Secured loans – getting closer to pre-Covid level both in terms of resolution and collection
  - In unsecured segment – it is not yet closer to pre-Covid level.

#### **On provisioning**

- Covid provisioning along with standard provisioning, restructured asset provisioning is 1.1% of book and 177% of net NPLs – seems not only sufficient but extremely conservative.
- SMA-2 is Rs1.33bn (0.06% of advances) – doesn't include standstill NPLs
- As regards GNPLs, not considered any account as NPL – has also provided for interest not collected of Rs930mn. GNPL, in absence of standstill, would have been 2.7%.

#### **On assets and advances**

- Start moving the ship and look at asset related growth – retail – home loans, secured asset, high quality corporates.
- Home loan – significant traction in urban, developers lowering the price has helped
- Unsecured is still some distance away from normalization. Though have started origination will use risk analytics to grow only in calibrated manner
- Rural India has done better than urban India – worst impacted segment is unsecured urban consumer – employees with lower salaries in company (large or small) is more vulnerable than higher salaries.

- Dropped YoY credit card and personal loan as well as unsecured business loan – has taken a view and will stand-by that view.

#### **On SME and ECLGS scheme**

- One of the sectors it was most worried about was SME book – however, ECLGS and moratorium has dampening effect
- MSME and ECLGS scheme has been a great success by giving MSME sector to fight through crisis. Conversion of close to 65% of eligibility to sanctions and in terms of disbursements, it is 80% of sanctions.
- Overall banking sector share in advances is around 2.6% while under ECLGS its market share is over 6%.
- Migration of customers from SME to corporate banking of Rs34 bn and Rs24bn is due to lower utilization

#### **On deposits**

- There is a room to cut deposit rates and will do it strategically – will not take quick short term financial decision
- At granular end of customers – up to Rs10mn – it is steady and customers continue to grow QoQ
- In top end with cut in rates there was some reshuffling

#### **On digital banking**

- Surge in customer usage for digital channel – transactions on mobile has moved up well (5.1% market share) – voice and chatbox, whatsapp banking etc.
- Digital sanction for mortgages
- Enable efficiency

#### **Some operating indicators**

- Balance sheet has increased 18% on YoY basis
- Fee and services have shown strong growth on QoQ basis
- General banking fees still lower 13% YoY as volumes are still lower
- Volumes have led to sequential rise in operating cost as well

#### **On Commercial real estate exposure**

- Non-fund is not very high in CRE segment
- Haven't seen flood of request – still couple of months to go
- In many cases, doesn't do pari-passu or entity level – but gives specific project financing and cash flows seem ok as of now.

#### **Commercial vehicle and CE**

- Disbursements better in Q2FY21
- Collection efficiency better than previous month and previous quarter
- Demand is getting better

- Tractor volumes are expected to do well
- Collection efficiency is good and improving MoM

**Wholesale banking business**

- 2 separate types – corporate and SME banking
- Continues to be alert and avoided large concentrated business
- High focus on quality and profitability of the book
- Can build sustainable franchise in corporate banking over a period of time.

**On non-banking businesses**

- Kotak Securities best ever quarter – just short of Rs2bn of earnings. Retail broking volumes have spiked and mobile trading a trend is picking up pace.
- Mutual fund earnings are stable; Kotak Mutual Fund – transitioned much earlier from physical to digital world; Equity AUM grew 12% YoY and equity AUM market share grew by 30bps; overall AUM market share grew by 16 bps
- Kotak Mahindra Prime – Car and 2-wheeler disbursements improving MoM
- Digitisation in life insurance – most of the employees
- Investment banking – it was busy season with several marquee transactions in financial as well as real estate sector. Continue to build upon a market leading franchise. Advisory capabilities have also improved and pipeline is good.

## LIC Housing Finance Q3FY21 Earnings Concall Takeaways

### On asset quality

- **Reported stage 3 assets were 2.68% (compared to 2.79%/2.83% in Q2FY21/Q1FY21)** - 1.22% for individual segments and 16.22% for non-individual segment.
- **Proforma stage-3 assets would be less than 1% over and above the reported stage-3.** Last quarter it highlighted proforma stage-3 of Rs3.0-3.5% (150-170 bps). Now there will be an overlap with anticipated restructuring.
- Stage-2 at 6.95% (retail too at ~7%) has to be looked in conjunction with 4-55% over past several quarters – prior to Covid.
- Total provisions at Rs29.5bn – this includes Covid 19 related provision stood at Rs2.1bn compared to Rs1.9bn in Q2FY21 (<10bps of AUM). Over and above this, created impairment provision of Rs1.86bn (8bps) towards proforma slippages.

### Collection efficiency and restructuring

- Collection efficiency is 98% in December (from 96% in September) – LAP collection efficiency is 96-97%
- There will likely be flow back from stage-2 to stage-1 due to improving collections MoM. March collections have always been the best.
- Evaluating proposals received for restructuring – Rs20-30bn applications are being processed (out of enquiries of Rs65-70bn)

### On developer book

- **Stage-1 in developer book is 16.22%; Stage-2 in developer book would be 8-9%. Developer stage-2 is Rs5bn and restructuring would be ~Rs5bn**
- Rs14bn of projects where Swamih (last mile) funding is being evaluated – 1 already done, 3-4 being in process and another 10-12 is being evaluated.
- Some resolutions anticipated in builder and high ticket segment.

### On growth

- Revival in economic activity speaks about resilience of real estate sector and improved demand. Witnessing steady improvement in disbursement and asset growth every successive month.
- **28% growth in disbursements – individual home loan segment 36% growth YoY. This supported overall loan book growth of 6% to Rs2.2tn - individual segment at 5% and Individual home loan share further improved to 77%.**
- For December, disbursement growth was in mid-30s
- Affordable housing account for more than 30% share in incremental disbursements
- Trigger for demand – key markets like Mumbai – record level registrations
- In 9MFY21 – disbursements 15% plus from Maharashtra and Gujarat
- New products – Gruh Varishtha, digitisation

- Doesn't encourage balance transfer-in – it would be less than 5% of disbursements.

#### On growth approach

- **The company is coming back on to a growth path aggressively being competitive on rate front and now offering 6.9%**
- Passing on the funding cost benefit and will make out spreads in volume (absolute term).
- Focus was to get good quality customer with CIBIL top score – risk adjusted NIMs are better
- Cautious on LAP on large cases – there will demand for LAP and will participate – will carefully choose

#### On NIMs

- NIMs were merely up 2 bps to 2.36%.
- **Yield of home loan on a stock basis – 7.6%; incremental it is slightly more than 7%**
- Yield on developer book is 13%, incremental is slightly less than 13% - doing very little cases.
- Funding cost reduction of 36bps – incremental cost of funds has also come down significantly
- Successfully raised Rs10bn of Tier-2 bonds to shore up capital adequacy
- Rs200bn will be maturing in FY22 and 6070bn in Q4FY21.

## LIC Housing Finance Q2FY21 earnings call takeaways

#### On collection efficiency & restructuring

- **Collection efficiency for overall portfolio (retail + non-retail, morat + non-morat) at more than 96% for the month of September**
- 96% calculation does not include any previous month arrears

#### On restructuring

- **3-3.5% of the total portfolio has enquired for restructuring. Overall, Rs 65-70bn has approached for restructuring.**
- **Restructuring split is 1:2 for Retail:Corporate (Retail 24bn & Project Rs 47bn)**
- **Not sure how many of this will be approved and result into actual restructuring.** Company will however look for eligibility and examine tentative cash flows post which it will offer restructuring.

#### On credit cost

- **Credit cost can inch up to 20-21bps in FY21.**

- Current provisions at stage 3 level is adequate with respect to provisions even after considering restructuring since company is also expecting 2-3 big ticket resolution in Q3

#### On asset quality

- **Rs 3-3.5bn (15017bps) of additional NPL are under standstill as per SC interim order**
- During Q3, some 2-3 big ticket size case resolution will materialize which are in final stage and hence there can be steep decline in NPA numbers
- Stage 2 assets has reduced significantly while 4% customers have not paid for the month of September. Hence, it can be assumed that most of the 4% customer would be under 30 dpd

#### On margins & yields

- For the quarter, Incremental yield was 8.11 (individual at 7.3-7.4%) while incremental cost was 5.81.
- **NIMs will be stable to positive**
- **Best rate of interest is 6.9% for cibil score of more than 700 and loan amount of up to Rs 150mn. Company strictly goes by CIBIL score and they have not witnessed any concerns with respect to CIBIL score.**

#### On funding cost

- Cost of funds saw a decline of 26bps QoQ and 46bps in H1FY21
- Incremental funding cost fell 100bps in Q2 as compared to total cost of funds
- **High cost liabilities of Rs 165bn (average coupon of 8.4-8.5) is expected to redeem in H2FY21 which will further result in lower cost of funds**
- **For FY22, high cost liabilities worth Rs 210bn with an average coupon of 8.1-8.2 are due for redemption**
- Company was able to re-negotiate term loans rate with banks and has shifted from MCLR to Repo linked loans

#### On disbursements

- Fresh disbursements are back to pre-covid levels
- Top-up loans would be around 3-4% of the total disbursements
- **September - 22% YoY growth in individual home loans, October - 38% YoY growth in individual home loans**
- Balance transfer as a % of total disbursements were less than 5%
- 29% of retail disbursements are in PMAY segment
- Disbursements growth is wide spread across the country
- **Disbursements in builder segment were largely to existing customers**
- Mobile app generated nearly Rs 20bn of sanctions which was launched just a month before lockdown

**On Griha Varishtha**

- Recently launched Griha Varishtha scheme has crossed AUM of Rs 10bn till date
- Anybody up to age 65 and having pension income can take housing loan and pay up to 80 years
- ***Rate of Interest is 6.9% up to Rs 150mn home loan***
- If goes for under construction amount, then 48 months' moratorium is given for principal payment and only interest is payable for that period

**On credit & deposit profile**

- ***9-10% YoY credit growth can be expected in Q3***

**On fee income & opex**

- Opex was sharply higher YoY as well as QoQ due to higher CSR expenses

## Magma Fincorp Q3FY21 Earnings Concall Takeaways

### On collection efficiency

- **Collection efficiency, post moratorium at 84.5% in Sep-20, 90.0% in Oct-20, 90.3% in Nov-20, 94.0% in Dec-20 and 97.2% in Jan-21**
- ABF business - 98.8% collection efficiency in Jan'21 vs 99% in Jan'20, which is almost close to pre-covid levels
- Collection efficiency calculation has been consistent since Sep'20

### On asset quality

- **Gross Stage 3 assets have peaked in Q3 and now they are expected to decline in Q4**
- **Morat portfolio who has not paid a single EMI from Sep to Dec is Rs 2.8bn (~1.9% of AUM). All these customers are 90+DPD and are already recognized under Gross Stage 3.**
- **Total covid related provisions stand at Rs 1.49bn (1% of AUM) and management is confident that it is adequately provided**
- Magma vehicle finance portfolio is entirely written-off at 730 days' bucket and SME portfolio is written-off at 450 days' bucket as per the company's policy
- **FY20 credit cost was 3%, it was 3.5% for 9MFY21 and it should be ~ 3.3 for FY21E.** The new normal with the latest portfolio mix should be 2.5-2.75% which will regularize in the quarters to come. By when the credit cost will regularize, will be stated by the company in the forthcoming quarters.

### On restructuring

- Total restructuring done till Q3FY21 is Rs 2.81bn
- By restructuring, company is just increasing the tenure of the loan and company cannot increase tenure by more than 2 years as per RBI guidelines
- **Total restructured portfolio is expected to be 4.5-5% as on FY21-end**

### On growth

- With covid provisions behind the company, it will now start to focus on growth from Q4 onwards
- **10-15% overall AUM portfolio growth can be expected in FY22 (with more than 10-15% growth in focused products)**

### On ECLGS

- **Total Rs 3.25bn of which Rs 1.1bn SME and the balance is in ABF loan book**
- **60% of the Rs 3.25bn of ECLGS was done till Q3-end and balance has been done post in Q4FY21 till date.**
- **Company doesn't see any stress in its ECLGS portfolio**

**On vehicle finance portfolio**

- **Used car disbursements are at 85% of pre-covid levels and expected to normalize in Q4**
- Shift to BS VI, vehicle availability and rebound in trade led to significant rise in used CV sales

**On opex**

- Opex has fallen 70 bps YoY in 9MFY21, of which 40bps fall looks sustainable in nature and hence 30bps rise can be seen due to increase in variable costs, once growth kicks in

**On capital**

- Around Rs 2.1bn capital is expected to be released from non-focus portfolio which can be used for focused portfolio

**On Magma Housing**

- Focused on retail assets with minimal risk
- Disbursements were up 38% QoQ, almost back to normalcy post the covid pandemic
- AUM – Rs 37.09bn
- Collections have returned back to normalcy
- RoA of 1.1% despite write-off of Rs 240mn
- 74% of loans were sourced directly by the company
- Opex to assets stood at 2.9% as of Q3
- Despite higher competition, there are no instances of irrational pricing by the players
- ***This business has the potential to generate 2.5-3% RoA on steady state basis***

## Magma Fincorp Q2FY21 Earnings Concall Takeaways

**On collection efficiency and covid buffer**

- Overall Collection Efficiency at 85% in Sep and 90% in Oct.
- ***Customers in standard bucket who availed moratorium of at least 1 EMI and have not paid September EMI stood at Rs15bn (9.6% of AUM), and have not paid September and October EMI stands at Rs6bn (3.8% of AUM).***
- ***One-time restructured portfolio as on 30-Sep: Rs830mn (0.5% of AUM) - unlikely to go beyond 3% of AUM by FY21.***
- ***Company made additional provision of Rs900mn in Q2FY21 for COVID related stress taking cumulative additional provision to Rs2.38bn - 1.5% of AUM.***

- Increased Stage 1 and 2 coverage ratio to 3.0% in Q2 FY21 (2.1% in Q2 FY20; 2.5% in Q1 FY21)
- The management has highlighted that this is sufficient to cover any spike in NCL or NPL in H2FY21.
- Gross Stage 3 declined to 5.1% (from 5.8% in Q1FY21) and net stage 3 down to 3.2% (3.7%).
- Normalized credit loss should be in the range of 2-2.5% (annualized)

#### **On restructuring**

- Restructuring only 0.5% of AUM as of now and won't exceed 3% of AUM

#### **On AUM & disbursements**

- Vehicle finance business portfolio is being reshaped with **more than 95% incremental disbursements comprising of focus products, viz., Used Vehicles, Affordable housing finance, SME loans & tractors.**
- Used car disbursements is at 75% of pre-covid levels, which is in-line with the industry
- Used car segment is quickly scaling back to pre-covid levels
- CV including used has suffered the most during lockdown. This segment has seen the highest stress in terms of cash flows. Company believes that it will take another two quarters to post recovery.
- AUM in focused products has remained largely stable
- On cars which are used for commercial transportation (like Uber, Ola) – there is a load issue and hence they are not able to generate enough cash flows.
- Over the past 2 years, CV sales have fallen every single month. As a result, banks & NBFCs which are completely focused on CV have reduced interest rates significantly. Rates are now at 11.5% from 13% which used to be the rates two years ago. **Hence, company started to focus on used cars and used assets where it is gaining good returns with higher RoA adjusted for provisions.**
- Disbursements in 3Q could be between 70-80% while it could be around 90% in 4Q with March month disbursements touching 100%.
- **Decline in AUM in H1FY21 should be compensated by growth in H2FY21 and hence AUM for FY21-end should be at same levels as FY20-end**
- **Disbursements are happening in passenger car for personal use, tractors and construction equipment segments while company is cautious on disbursements towards CV & commercial use of passenger cars**

#### **On SME business**

- ECLGS scheme – Company has total 15k customers of which 6k qualified for ECLGS scheme and company has disbursed loans to 3k customers. Given the extension, this can probably increase to 4k customers.
- Company is moving to completely secured & digital in SME business
- SME sector is bouncing back to normal
- Have a dedicated sales, credit & collection team

**On RoA**

- Decline in opex (70bps) and cost of funds (40bps) resulted in RoA improvement to the extent of 110bps (pre-tax)
- Out of the 70bp improvement in opex, 40bp is structural while 30bp will come back once business normalizes
- Cost of funds could further go down by 30bp with benign interest rate environment
- Hence, overall rise in 100bp (pre-tax) looks sustainable
- In line with its strategic decision to focus on high RoA products, it has **stopped sourcing low RoA products like new cars, CV and CE.**
- **Overall, strategy is to focus on used assets, tractor & SME which are high yielding and high RoA (adjusted for NPL)**

**On liquidity**

- Liquidity is not a concern and it is quite healthy as of now
- Company has undrawn lines of Rs 4bn and there is in fact pressure from banking system to utilize undrawn lines

**On Magma Housing**

- Magma Housing Finance (MHF) - has initiated actions for raising capital for growth. MFL intends to keep prospective investors' preferences in mind while finalizing the reorganization structure for MHFL.
- Flat YoY PAT of Rs140mn, after an additional COVID provision of Rd70mn. AUM grew by 8% YTD and 23% YoY to Rs35bn.
- AUM grown 23% YoY at Rs 35.54bn and likely to cross Rs 40bn by year-end including mortgages
- Bounced back to 87% of pre-covid disbursements and 92% of collections
- Taken additional provision of Rs 65mn during the quarter taking total covid provision to 0.5% of advances.
- Affordable housing franchise has built pretty well in Magma over the past few years
- Planning to raise capital for growth of ~Rs 4-5bn. This will help to take AUM to Rs 60-70bn
- **Housing RoA is currently at 1.6% and in a couple of years, company should be able to increase RoA by another 100bps largely driven by lower cost of funds (40-50bps) and fall in opex (20-25bps)**
- Have a dedicated sales, credit & collection team
- Lending towards affordable housing with an average ticket size of Rs 0.09-0.13mn

**On Insurance business**

- Plan to raise Rs 3.5bn capital going ahead

**On branch rationalization & cost**

- Did branch rationalization and have currently 290 branches
- Infrastructure is divided among the 4 businesses – housing finance, insurance, SME & used assets and hence cost is also divided among the segments in the proportion of utilization

## Mahindra Finance Q3FY21 Earnings Concall Takeaways

***“Seeing the collection efficiency and customers’ repayment behaviour, large part of stage-2/3 seems technical in nature and will get reversed in coming quarters. Is taking sufficient corrective measures in every & every line item to move towards growth orientation and targeted RoE profile”***

### On asset quality

- Last time while giving guidance that stage-3 would not rise, ***it was expecting restructuring from 6-7%***.
- When customers whom they asked for restructuring are making instalment payments, it gives more confidence that contracts will revive and hence not forced upon restructuring.
- ***Stage-2/3 is very temporary in nature and should get reversed in coming quarter***
- ***315k accounts in stage-2*** – 90k accounts in stage-2 are regularly servicing though have not paid in full to be out of stage-2; ***only 6% (~20k accounts) have not paid any instalment*** – of this 2%, it is customers who have credit in their balances or are near to closure and just one or couple of instalments left. 15k out of 20k accounts are in tractors and their money should start flowing in. 52% have moved to stage-3 and provided Hence doesn’t see stage-2 will progress in stage-3
- ***Stage-3 assets - 161k of which 23% of contracts have started making, though not enough to make them being out of stage-3***
- Has seen substantial movement in collections across various buckets and has conservatively provided for
- Net NPLs have managed at last December level suggest that provisioning is more than enough. Will always maintain net NPA below 4% and whatever coverage is needed for that will maintain that.
- Their customer profile is more of the nature of ‘earn and pay’ segment and hence not much impacted by credit score
- Will look forward to get stage-3 at 7% and on steady state basis at 4%

### Collection efficiency and restructuring

- ***December collection efficiency is 96% - customers are paying up as activities – infra, farm money collections, cab aggregators resuming operations***
- Will resort to repossession that was not the approach so far
- ***Virtually no restructuring – not their decision but it was customers’ decision – reached out to 150k customers to understand ground level earnings – most of the customers have serviced loans during 3 months***
- Auto, CV, car – 94-95% have serviced the loans and 50-55% have paid full instalment during last 6 months
- Contracts in stage-2 for vulnerable pool have also seen repayment – 50% plus have paid 3 months’ instalment. They were confident on making payment didn’t want to extension of tenor.

- Moratorium was given to 15L accounts – upward of 94-95% have serviced their loans during the period and balance 6% is already in stage-3
- Extremely confident to believe of bumper Q4
- Even in earlier cycle, Gross NPLs moved to 11% or so and then substantial reduction was witnessed. Customer do defer but as situation stabilizes, they start honouring obligation with overdues

#### **On provisioning**

- Management overlay provisions in stage-1 (of Rs0.7bn) and stage-2 (of Rs2.7bn) has been utilized and now it is only against stage-3
- Charge to P&L would be specific provisioning, some bad-debt etc.
- Rs3bn of write-offs in Q3FY21

#### **On growth outlook**

- Have had some pressure on volume than anticipated
- **55% from M&M and balance from non M&M – M&M volumes got impacted due to some supply constraints**
- Only segment of consciously going slow is non M&M tractor segment in certain geographies as when market share is low over there, it can get marginalized.
- Mahindra UV, car segment, CV segment – has got decent share of the market
- In car segment, informal salaried are buying personal vehicle
- Some customers have shied away from buying vehicles though repayments have gone up
- Proportion of cash purchases have gone up and brings down the volume away from financing
- **Growth visibility is improving and should get to normal level by Q4FY21/Q1FY22.**

#### **On NIMs**

- On borrowing cost, has advantage of multi-source funds available
- Margins will improve from better liquidity management and better mix of funds

#### **On opex**

- Various line items to bring down cost
- Overall volumes when it picks up, cost will go up
- Will settle at 2.4-2.5% and has shaved off 50-60bps (from much higher currently due to lower volumes)

#### **Other highlights**

- Customers following quarterly instalments rather than monthly – 45-50% of tractor segment and some part of car customer who are farmers (negligible in few 100 accounts)

## Mahindra Finance Q2FY21 Earnings Concall Takeaways

### Industry dynamics

- Sentiments are turning positive, monsoons great add on to that and rural coming out faster than urban market.
- April to June, July to September and now – significant improvement; market confidence returning back
- Covid has not gone deeper into villages/dealerships etc. and still extended only in semi-urban segment
- Demand is still high – footfall is rising
- **OEMs not able to fulfil demand due to supply shortage – now inventory has gone up and retail deliveries are also happening – this festive will be similar to last festival**
- Infrastructure is opening up – beneficiary of these cash flows improvement in rural market.

### Management commentary on company's development

- Things have gone well on every front be it disbursements, collections, cost savings etc.
- **First half, good recovery despite moratorium. Therefore, in second half, collections will remain buoyant.**
- Investing in digital initiative and data based approach

### Moratorium and collection efficiency

- Moratorium was high at 75% (1.67mn customers); collections are coming up. 70% of moratorium customers have serviced their loans (some movement with atleast one instalment)
- September also collection efficiency has gone up to 82%. Normally July-Aug collections are not better due to monsoon – else would have been 87-88%.
- Number of accounts not able to pay any instalments – 0.275mn customers out of 1.67mn customers. These are primarily in few segments that have not seen business revival - cab aggregators (1.5% of advances), school bus, hotel/tourism, heavy CVs etc. that together form 7-8%. Some of these will come up for restructuring
- No restructuring as of now – based on needs will do but **not expecting more than 0.10-0.15 mn (around Rs60bn) – out of 2 mn (live accounts) customers it services**
- **Texture of restructuring** - Some of them wanted just interest deferment for additional 2-3 months (post that EMI to be recalculated for contractual tenor) or lower EMI in first 6 months or repayment extension of 3-6 months. **Period of contract not getting substantially extended and value of collateral not getting impacted.**
- **No additional being given to restructured customers.**

- Rs40bn where moratorium is extended and is overdue is combination of everything – some will restructure, some will repay, some will move into NPL

#### **On GNPLs and stage-2 loans**

- Stage-2 loans – 7.7% - this includes 0.5% of standstill.
- ***Will hold on to NPL (will not go up much from where it is) as it has sailed through most difficult and challenging 6 months and now getting into good phase of rural market.***
- ***Take NPLs to sub-4% and shave off GNPLs by 1%***
- Resorting to settlement than repossession. Post festive season – may resort to repossess vehicles.
- Repossessed value gets impacted only if assets are misused or if asset is repossessed and not sold – if asset is not put to use and vehicle move from BS-IV to BS-VI will have better demand as they can use it commercially and earn better revenues as BS-VI.
- ***Aggressive stance on management overlay to take care of perceived stress and keeping NPLs low***

#### **On AUM**

- Volumes yet to pick up and has not seen loss of market share.
- Demand for tractors driven by farm and not much in infra segment
- Pre-owned demand is good
- Supply side is choked and not very aggressive
- On an overall basis – not a growth over previous for full year
- AUM growth range bound at 8-10% - to get back to 15-20% growth story will be post March

#### **Competitive dynamics**

- ***Financiers that were active in LAP, HCVs etc. have shifted focus on tractors, farm segment***
- Banks are aggressive in car loans
- ***In FY22, government focus to improve infra spend will be high and lot of spend in rural – will help pick-up, backloaders etc.***
- Leveraging on the upcoming opportunities - Deepening presence, partnership, co-lending
- ***Don't lose market share and maintain dealer relationship***

#### **On operating cost**

- 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 brought down to 2% - can go up to 2.25-2.40% if businesses were grow to 15%***

- **Have permanently shaved off 50 bps**
- Rationalisation of regional offices and not branch offices (that are customer facing) – redeployed people from regional offices internally. Though are not adding people,

#### **On NIMs**

- **Yields are holding on, resorted to storing liquidity (Rs85bn) and carrying cost drags NIMs by 50-60bps**
- Do see ability to raise funds from every source and attractive price. So will take a call if now there is any need for excess liquidity.

#### **Rural housing**

- **Seeing improvement on growth**
- Aggressive stand on provisioning – particularly Maharashtra
- Not lend during this quarter in MH but focus on collections

#### **Insurance broking**

- Synergistically related to MMFS
- Growth aligned to growth of parent
- Business model to remain profitable

#### **Asset management**

- Growth is muted and steady
- Controlling cost to improve
- Have got partner and no need to infuse capital

## Muthoot Finance Q3FY21 Earnings Concall Takeaways

### Opening remarks

- Have crossed Rs500bn of assets under management in the gold financing business and including the subsidiaries it has crossed Rs550bn
- **Consolidated AUM grew 28% YoY/7% QoQ to Rs558bn. Reported consolidated PAT of Rs10bn – up 17% YoY/8% QoQ. For 9MFY21, consolidated profit has increased 24% YoY.**
- Branch network – has added 150 branches in last one year to 5,417. Will add another 150-200 branches next year as well.
- **Active customer base of gold financing has cross 50L.**

### Gold financing business

- PAT of gold financing business was up 22% YoY/11% QoQ to Rs9.9bn – translating into RoA of 8% plus and RoEs of 29%.
- Overall AUM grew 31% YoY/7% QoQ to Rs504bn.
- Disbursements were focused on new customer additions, fresh loans to active and inactive customers and top-up loans to existing customers. **Disbursed fresh loans to 3.88lakh new customers amounting to Rs29.8bn and to 4.38lakh inactive customers amounting to Rs29.6bn.**
- **AUM growth of 25-26% by end of the year. Going forward, also is confident of 15% growth in the medium term.**
- **LTV is 65% without accrued interest and 67% with accrued interest – average incremental LTV settles around 68-70%**
- **Gold loan stage-3 is 1.3%, stage-2 is 0.48%. Higher provisioning during the quarter was mainly because of considerable rise in portfolio in last two quarters – hence standard asset provisions have gone up.**
- More than 3L ticket size is around 22% of the portfolio. Entire gold portfolio is of one-year tenor.

### Belstar MFI

- MFI is performing well and AUM rose sequentially to Rs28.9bn – 26% YoY/7% QoQ growth. **Gross stage-3 assets were still managed at 0.67%; however, it created additional provisions of Rs410mn (1.5% of AUM).**
- **Collection efficiency is 98% and disbursements as well as collections are back to pre-Covid level.**

### Muthoot Home Finance

- Reported profit of Rs20mn for Q3FY21 and Rs80mn for 9MFY21.
- **Loan portfolio further declined to Rs18.8bn (compared to Rs19.4bn in Q2FY21 and Rs20.2bn in Q3FY20) as it is recalibrating the growth.**
- Gross stage-3 assets declined to 1.56% (from 1.71%) and it created additional provisions of Rs210mn. In home loan, the proforma stage-3 would have been

upwards of 6%. Against this, it now carries ECL provisions of 2.05% of housing loan assets.

- **Home finance collection efficiency is 88%**

#### **Muthoot Money**

- This arm engaged in vehicle financing business reported loss of Rs15mn. **Portfolio too contracted 9% QoQ to Rs4.2bn as gross stage-3 spiked to 9.2% (from 5.12%) and it created cumulative buffer of almost 6% of AUM.**
- **Collection efficiency is 83.85%**

#### **On borrowings**

- Public issue of NCDs raising Rs20bn – see growth momentum continuing in next quarter as well.
- **With current uncertainty and the way, it is planning to grow, need to have adequate liquidity on balance sheet.** There is negative carry due to surplus liquidity but would want to retain such liquidity due to unusual circumstances that industry is facing.
- **Incremental cost of funds – bank funding at 8%, NCDs 7.5% and average cost of borrowing is 8.5%**

#### **Other highlights**

- Marketing, sales and advertisements are consistent efforts for top of the mind recall.
- Not initiated any restructuring in any of the businesses – not material at all.
- Insurance claim of Rs80mn was received in Q3FY21 which is included in other income.

## Piramal Enterprises Q3FY21 Earnings Concall Takeaways

**Q3 was marked by recovery in various segments of the economy. Continued to deliver resilient performance in all these period – revenue has been stable in line with stated strategy at Rs94bn for 9MFY21. Consolidated profit grew +27% QoQ/+10% YoY to Rs8bn.**

**PEL has history of several successful transformations - M&A has been a strategic multiplier for the group all through its journey**

- In 1988 when it exited textile and entered pharma through series of M&A;
- In 2010 – sold domestic formulation to Abott at 9x sales and 30x EBITDA;
- Even after selling domestic formulation business, has scaled up pharma business to the extent that it can command valuations of USD3bn
- ***In 2021, it's now time to think about next 10 years and is positioning itself for next transformation – Many radical changes in wholesale lending and non-compete with Abott is over opening up new possibilities.***
  - Financial services business transformation through acquisition of DHFL
  - Large differentiated listed pharma company – will host pharma day to take into more details

### **On simplification of corporate structure of the group**

- Strengthened both financial and pharma business to stand independently of each other.
- Pharma has own board, executives and senior management team.
- ***Closer to its stated objective of de-merging pharma and financial services.***
- Both the companies have good runway of growth in the long term.

### **Progress on strategic priorities in financial service business transformation**

- **Reduce concentration and build granularity**
  - Move from concentrated exposure to granular portfolio - on expected lines, wholesale loan book further declined to Rs411bn from Rs458bn
  - Top 10 exposures concentration reduced 27% since March 2019 to Rs134bn (from Rs147bn in Q2FY21)
  - Lending portfolio where retail will be 50% of the book – grow retail through organic build-up and DHFL acquisition
  - Commenced disbursements under the multi-product Retail Lending platform, launched 6 new products in Nov-2020 – Rs850mn disbursements in December.
- **From high leverage to high capital adequacy**
  - Since April 2019, capital infusion of Rs180bn taking total net worth to Rs355bn. CAR now stands at 31%.
  - Net debt to equity is below 0.9x

- Has adequate growth capital for next 5 years
- **From short term liabilities to stable long term borrowings**
  - Rs128bn of long term debt has been raised in last 9 months and CP exposures remains low at Rs10bn
  - ALM has improved with significant positive gaps in all buckets
- **Conservative provisioning**
  - Rs29.35bn of provisioning – 6.3% of the loan portfolio (6.8% of wholesale portfolio)
  - Provision on stage-1/2 has increased to Rs20bn – non NPL asset has provisioning of 4.5% of the book
  - More than adequate to meet any future contingencies

#### **DHFL acquisition**

- CoC declared the plan submitted by Piramal as the successful resolution plan. 94% votes in favor of Piramal, reflecting the Group's credibility and Balance Sheet strength
- Total consideration of Rs342bn – upfront cash component of Rs147bn (incl. cash on DHFL's B/S) and a deferred component (NCDs of 10 years to existing DHFL lenders) of Rs195.5bn.
- ***Acquisition is in line with PEL's strategy to diversify the loan book and increase its granularity. It's another step towards demerger of Financial Services and Pharma business in future.***
- ***Will give additional branches and customer reach – lot of potential and intent is to work from day zero to cross-sell products in Piramal kitty. Little less than half the branches have right level of staffing. There was meaningful level of attrition a year ago. Sales and collection capacity is there, need to assess credit and underwriting.***
- ***Examining the wholesale book of – though gross block is high will account for that at much lower valuation and believes there will be an upside from those mark-down valuations.***
- ***Retail AUM consists of both on balance sheet as well as securitization arrangements.***
- ***Application has gone to regulators for approval that might in a fortnights time. Post that NCLT approval will come in 2-3 months' time (April-May) and after that will take 35-40 days to close it.***

#### **On performance of PEL developers' clients**

- Residential real estate has surpassed pre-Covid levels
- Sales of developers increased 82% YoY, developers' collections were higher by 49% and 100% construction

**On asset quality**

- ***Proforma GNPA's have gone up QoQ from 2.5% to 3.7% (in absolute term addition of Rs4.4bn) due to slippage of one account (in auto ancillary segment) from stage-2 to stage-3.***
- Stage-2 plus Stage-3 assets – if it was 100 in Q2FY21 then it would be 105 this quarter – 5% up in absolute term.
- Should not go higher from the current levels but will keep monitoring the portfolio
- Since the company was already carrying buffer of 6% of the book, there was no need to further create the provisioning. No change in NPL ratio and was at 1.8%.

**On restructuring**

- ***Restructuring came in at Rs17.4bn (3.8% of the book) – much lower than expected. There was only one real estate exposure getting restructured and others were in hospitality, auto component, infra etc.***
- ***DCCO extension was done quite early in the day as soon as Covid has broken out – 10-12% of the book***
- ***Retail loan restructuring was less than 1%.***

**On specific exposures**

- Non-RE – infra is down to Rs23bn and is down by another Rs1bn (from as high as Rs45bn).
- Top 10 exposures would see steady fall QoQ – Lodha exposure is down from Rs33bn to Rs26bn. Moved all finished inventory into SPV - exposure to Lodha will be Rs10bn and balance will be in SPV.
- Omkar exposure – Rs23bn – counter parties where developers have been different – Piramal Mahalakshmi and L&T Crescent Bay.

**On retails**

- ***4 significant product lines – lowest yield is mass affluent housing - just a shade under 11% and higher small business secured loans at 13%.***
- Markets are small-town, mid-town India – seeking customers that are not served well by the banking system.
- Partnership it went live is fintech – West Money and 3-4 more lined up for the next quarter (in secured and unsecured lending). Will experiment with various business models but works on float economics at this stage. Intent is to not have heavily concentrated or dependent partnership.
- In personal loans – just in test run stage and live in urban markets. Hence looking at ticket size of Rs30k would not be true indicator – first time jobber young professionals with 25-50k income range.

**On cost of borrowings and NIMs**

- Cost of funds – since it was wholesale dominated, cost of borrowings is high. With diversification and more granular book, cost of borrowing would come down.
- DHFL money is raised at 6.7%.

- NIMs is healthy at 6.2%.

### **On pharma**

- Overall pharma is a global one and has different business components- EBIDTA margin in each of the segments would be comparable with peers.
- CDMO revenues at Rs8.5bn, growing +16% YoY, driven by strong growth in the order book
- Complex Hospital Generics revenues at Rs4bn, down 13% YoY, impacted by volatility in the demand of products used in surgeries globally; expected to normalize in the coming quarters
- India Consumer Products revenues at Rs1.3bn, up 14% YoY; strong demand for self-care and baby care products and new product launches (including COVID-19 protect range) during the year
- Continued strong quality track record with 17 successful regulatory inspections during the year
- Both organic and inorganic expansion – in CDMO, healthy order book generated.
- In consumer products - Launched 15+ new products and 35+ SKUs during the year.
- Upside component on Carlyle deal still exists – will look at last quarters numbers before taking a call on the same.

### **Other highlights**

- In standalone account is treated as exceptional items and in consolidated accounts, it is directly transferred to reserves.

## Piramal Enterprises Q2FY21 Earnings Concall Takeaways

### **Chairman Opening Remarks**

- Month on Month improvement suggests economy is recovering at faster pace – GDP to turn positive in Q4FY21.
- RBI and Government has been extremely proactive in easing the impact of lock-down with announcing stimulus packages and liquidity support.
- Economic recovery is broad based across sectors barring few sectors like Hotels, Tourism etc.
- Worst is over for the Indian economy

### **Outlook**

- Pharma industry playing a critical role and has stayed resilient
- Seeing MoM improvement and early signs of recovery
- Real estate sales picking up in Q2FY21 compared to Q1FY21

- Despite challenging environment, have reflected resilient quarter - revenues QoQ grew 12% and PAT grew 27%

#### **Simplified corporate structure**

- Based on Investor feedback it simplified corporate structure with two major business – A) Financial services 100% owned by PEL and B) Pharma 80% owned by PEL and 20% by Carlyle
- Long term plan to list both the arms separately

#### **NBFC consolidation**

- As per management, NBFC sector is likely to witness consolidation with players having better liquidity, adequate capital and resilient business model backed by strong risk management & governance to gain market share
- PEL is well positioned to come out stronger in post Covid era and taking away market share in NBFC space.

#### **Pharma - Stake sale to Carlyle**

- **Raised USD419mn of fresh equity valuing its enterprise value of USD 2.78bn with upside component of USD3.6bn.**
- **15 products and 36 SKUs**

#### **Focus Balance sheet strengthening and ensuring liquidity**

- Over past six months, PEL has been conservatively focused on strengthening balance sheet and ensuring adequate liquidity to navigate current cycle effectively than others.
- In line with strategy, it raised long-term borrowing of Rs248bn (of which Rs115bn raised during Q1FY21 for 3-7 years) and raised Equity (CAR at 34%) to bring down Net debt to Equity less than 1x.
- It also focused on reducing CP borrowing to ensure significant positive ALM gap.
- Incremental borrowings are being done at much lower cost than the average cost and hence the average cost of funds is showing a decline
- Incremental borrowing is in the range of 8.5-9.5% depending upon the type of instrument and the lending bank
- **Company expects there could be a rating upgrade with the change in borrowing mix**
- Average yields would be lower than 14.5% going forward. Company will not indulge into unsecured lending this year and hence company is not going back to 14.5% yields in near-term.

#### **Financial services business**

- Survival of fittest – enough liquidity, strongly capitalized, corporate governance, radically transform or evolve business model to changing environment etc.
- Opportunity to grow organically as well as inorganically (at an opportune time)
- Made additional provision of Rs 19bn in Q4FY20 taking provision to Rs 30bn – 5.9% of loans
- Company might want to wait till the end of Q3 to wait that whether it would want to reverse any provisions related to covid front.
- Stage 2 loans stand at Rs 12-13bn

- Total provision stands at Rs30bn or 6% of loan book
- Exposures to top-10 accounts (Rs147.1bn) were stable QoQ (except for some accrual of interest income during moratoriums)
- No guidance on restructuring and believes though collections are improving MoM, better clarity on asset quality will emerge by Dec/Jan'20. However, it also pointed out that existing provision is adequate to take care potential restructuring.

#### **Real Estate book update**

- Post covid, company had assumed zero sales in H1FY21, 20-30% in Q4 and 30-40% in March. However, early trends indicate better performance of developer book than anticipated under stressed scenario for creating provisions.
- Developer collections from homebuyers at 82% of pre-COVID levels
- Sales of developers back to 100% of pre-COVID levels
- Construction commenced at nearly 100% of sites.
- ~90% (~21,000 labourers) returned to sites vs. pre-COVID levels
- There was no top-up as such required for any of the wholesale clients. However, company has set-up credit lines for developers to ensure completion of projects.
- Company doesn't anticipate more than 5-10% price correction in real estate. Infact under affordable housing, some cities have witnessed increase in price in September
- Company has not done new lending to any fresh project during the current quarter
- Company continues to disburse to existing under construction real estate projects, which helps to complete stuck projects
- Prospects of the real estate and renewable sector have improved significantly over the past six months

#### **Spilt between Wholesale-Retail to settle at 50-50 in medium term**

- It is actively looking to transform itself from wholesale lender to diversified financial service provider. It intends to expand Retail portfolio aggressively either via organically or inorganically.
- In terms of fintech, company is open to inorganic opportunities but that is not the primary focus

#### **Multi-asset retail lending platform**

- Multi product retail lending platform – digital at its core.
- Focusing on Bharat market – unserved customers in Tier-2/3 cities.
- High quality management team – incorporating learnings from current environment
- In FY21 will lay foundation of the business by taking differentiation approach – going live this Diwali with 4 product categories in 26 towns.
- Will continue to evaluate inorganic opportunity in retail financing business.

#### **Pharma**

- Debt levels in pharma after the deal would be Rs 20-25bn

## PNB Housing Finance Q3FY21 earnings call takeaways

### Restructuring

- **Restructuring until Q3FY21- Rs 8bn (1.25% of loan assets)**
- **Rs 1.46bn corporate while retail is Rs 6.61bn**

### Asset quality

- **Proforma NPA comprises Retail & Corporate. Within retail, it comprises salaried, self-employed, housing & LAP.**
- Write-off for 9MFY21 is Rs 340mn

### Corporate portfolio

- Corporate book is 17% of AUM as of Q3 and it is down 9% YTD
- Under corporate, company has reduced ~Rs 10bn exposure since March and will look to reduce another Rs5bn exposure in Q4

### Swamih Invt fund

- Projects worth Rs 12bn recognized by Swamih Invt fund team for last total mile funding (all are already NPA or proforma NPA)
- **But as of now, company is actively working only for Rs 3.5bn assets towards 3 projects. For the remaining projects, company is looking at other alternatives as of now apart from Swamih.**

### ECLGS

- **Rs 1.3bn disbursed under ECLGS**

### Borrowings

- **Incremental borrowings blended cost was 6.9% for 9MFY21 and 6.7% for Q3FY21**

### Liquidity

- Liquidity levels are of Dec'20 stood at Rs 70-80bn (including undrawn lines of Rs 15-16bn)
- **Bank is looking to maintain liquidity in the range of 30-60 days in the medium term**
- During the quarter, bank has repaid most of the high cost borrowings
- Rs 180bn repayments of deposits + borrowings expected over the next 1 year
- Rs 40bn of ECB repayments expected over the next 1 year

### Yields

- **Income from securitization as well as higher yields from corporate resulted in higher yields QoQ**
- Adjusting for securitization income, yield stood at 10.43%
- Corporate book – rate of interest has been increased to 100-125bps in Q1FY21 and the entire re-pricing is playing out now

- **PNB HF lending rates are 40-45bps higher than the best in the market as against 30-35 bps higher pre-covid. This is largely due to lower borrowing cost which had aided the company to cut its lending rates.**
- **Yield on retail home loans is 9.82% (on AUM basis) and incremental is 9.09% for Q3FY21**
- 9.43% is incremental yield for the entire book in Q3FY21

#### **Retail targets under new strategy**

- Cost to income on aggregate basis should remain in the range of 15-17%
- **For FY22, RoA target of 1.6-1.8 on Retail**
- Muted growth of single digit for FY22 with larger focus on Retail
- Looking at affordable housing and very big opportunity under Unnati segment

## PNB Housing Q2FY21 earnings call takeaways

#### **Industry-wide commentary with company's performance**

- Economic activity picking up across sectors and green shoots visible for real estate sector
- **Disbursements in Q2 FY21 reached 86% of Q4 FY20 disbursements - nearing 100% of pre-Covid levels in October and November**
- Lower interest and government initiatives is supporting the sector
- Closely watching retail housing bucket and exploring opportunities

#### **On asset quality**

- **GNPA at 2.59% - retail GNPLs 1.23%; corporate GNPLs is at 7.6%; Standstill GNPLs at 3.04%;**
- **Prudent provisioning measure being undertaken – now has cumulative buffer 3% of loan book and coverage of 115%**
- Provisions on stage-3 have increased to 44%. As of now provisions are adequate and don't expect it to rise exponentially.

#### **Moratorium and restructuring**

- Moratorium on retail AUM declined from ~49% in Morat 1.0 to ~29% under Morat 2.0 – as per their last disclosure
- **As of August '20, Retails book under moratorium was Rs180bn – at 29%; 85% of corporate book was under moratorium**
- **Of this pool, 81% of morat customers have paid at least one or more EMIs; 19% who have not paid are being contacted through various sources and efforts of recoveries are on.**
- **Overall collection efficiency is 94-95% in retail; Collections were Rs5.5bn in June and in September it was Rs12bn.**

- **Corporate book – significant number of developers have applied for restructuring**
- Trying to resolve accounts through auction, OTS etc.
- Have identified 7-8 projects for last mile funding
- Overall, it has assessed the developments for its developers – situation is shaping up well - completed units or near completed units; conversion to offers of home buyers is rising and inventory is reducing

#### Update on key NPA accounts

##### **Accounts resolved**

- **Pate Developers** – Rs200mn; an MOU has been executed with leading developer of Pune who has paid 10% payment earnest money.
- **Ireo Pvt** – Account resolved with outstanding of Rs230mn as on 30th Sept 2020 vs Rs1.01 as on 30th June 2020; moved out of NPAs on 30th September 2020
- **Other NPA account** - 3 accounts with outstanding balance of Rs40mn closed with NIL credit loss

##### **Resolution underway**

- **Vipul Ltd.** – Rs3.6bn; got symbolic possession of the project; JDA with a large international developer in advanced stages
- **Radius** – Rs2.6bn; initiated legal proceedings under SARFAESI, working with the co-lender for auction
- **Supertech Ltd.** – Rs2.44bn; bulk sale of inventory in progress to restart the project
- **Ornate Pvt. Ltd.** – Rs1.81bn; initiated legal proceeding, case is now gone to NCLT; received EoI from various developers

#### On corporate book

- Company strategy is to bring corporate book down. Portfolio is getting rebalanced keeping in mind the capital conservation.
- Sell down and accelerated pre-payment of INR 477 crore in the corporate book. Looking to down-sell further Rs15bn.

#### On NIMs

- NIMs have risen as it has increased the rates in corporate book
- Yields of 11.5% - includes securitized income of Rs1.05bn
- Also, cost of Borrowing reduced sharply by 12 bps in Q2 FY21 QoQ

#### Other highlights

- **Started borrowings through CPs – now stands at 2.0-2.5%**
- First round of rationalisation done and branches were bought down to 96 branches. Second round will be based on profitability, productivity
- First housing financing company to implement digital KYC – seamless experience
- Under-construction portfolio is 19%

- Flattish AUM this year and next year will look at growing in calibrated way
- Retail segment contribute 95% of the H1FY21 disbursement
- ***Capital raise – Expecting the approval to come and post the approval it will be done at the earliest***
- LCR – well in place to be near 100% as prescribed by the guidelines. Sufficient to take care of disbursements/operations for 90 days

## Power Finance Corporation Q3FY21 Earnings Concall Takeaways

### On RKM Powergen resolution

- **RKM Powergen with an exposure of Rs 50.15bn has been successfully resolved outside NCLT and moved outside Stage 3.**
- The account was adequately provided and hence it won't have a significant negative impact on P&L.
- Recovery rate has been at 60% and loan restructured with existing promoter through sustainable and unsustainable debt (4 units of 360MW, 3 of which are operational and the remaining unit will be operational in sometime)
- **Overall debt would be more than Rs 90bn on the entire project of which 60% is sustainable with RP-4 rating**

### On other project specific details

- **India Power Haldia (exposure of Rs 9.59bn)** - Resolution has been approved by PFC & REC and hence restructuring expected during the quarter
- **KSK** (exposure of Rs 33bn) – 2 subsidiaries are also to be merged and hence lenders will go for a joint resolution
- **Ind Bharath Utkal – (exposure of Rs 13.68bn)** There was a bid by JSW which has been withdrawn because of some material change and the **next hearing is on 25<sup>th</sup> Feb**
- **Lanco Amarkantak Power(exposure of Rs 23.76bn)** – 2 bids have been received which are below the recovery anticipated by the lenders. Now CoC meeting would be held to decide on the acceptance/rejection of bids. 2 units of 300MW are operational and 2 units of 660MW are under construction. **Both the bids received are Rs 10mn per MW.** If the COC does not fetch good value, then they might take over the project themselves
- **Jabhua Power** – Expected to be resolved in the next 2-3 quarters (NTPC reduced the offer during discussion and hence CoC is in discussion with the same and **provision coverage currently stands at 56%). It is an operational asset running at 55% plant load factor.**
- **South East UP transmission - (exposure of Rs 22.63bn)** Expected to be resolved in the next 2-3 quarters (**provision coverage – 41%**)
- *Jabhu Power & Essar project are already commissioned while KSK, Lanco & Southeast are partially commissioned*
- **Management expectation is that a commissioned project having PPA in place should yield Rs 30-40mn per MW**

### On credit cost

- For one of the company's Stage 1 borrowers (**TANGEDCO** with exposure of Rs 300bn), annual rating done by govt of India has been changed from category B to category C. Hence additional provisions of Rs 6bn has been created against the borrower as per ECL guidelines which has resulted in elevated credit cost during the quarter.

- **Addn provisions of Rs 13bn done during the quarter while there was provision reversal of Rs 20bn on account of RKM Powergen during the quarter**
- Provisioning on stage-3 enhanced to 61%
- Provisions is being done on project specific basis and hence there are no separate provision buffers created by the company
- There was no increase in terms of regulatory provisions during the quarter
- History suggest that recovery rate has been in the range of 50-60% for the firm.

#### **On dividend**

- RBI in various forum has indicated need for adequate capital buffer and discussion paper was also issued for revised regulatory framework for NBFCs.
- **PFC is looking at shoring up CAR and is in talks with government with respect to clarity on dividend declaration** and also evaluating requirements highlighted in the draft guidelines relating to dividend distribution by NBFCs

#### **On borrowing profile**

- PFC raised Rs 5bn through public issue of taxable bonds
- Raised USD 500mn through USD denominated bonds with a maturity of more than 10 years and a coupon of 3.5%

#### **On Atma Nirbhar scheme**

- **PFC - Rs 657.96bn / Total incl. REC - Rs 1,317.26bn**
- **PFC - Rs 218.70bn / Total incl. REC - Rs 460.74bn**
- Pace of disbursements has slowed down momentarily – will pick up going forward. Disbursements for tranche II is in pipeline

#### **On yields, cost & margins**

- Cost of funds is at 7.48%, decline of 27bp YoY
- **Spreads improved to 3.2% and NIMs at 3.63% driven by lower cost of funds and stable yields**
- *In November, company has reduced its yields in order to pass on the benefits of lower borrowing cost to consumers - this is in normal course of business.*
- *Yields have been constant in the range of 10.6-10.7%. But due to decline in cost of funds, company might probably revise its yields a bit lower during Q4FY21.*
- *In private sector renewables, yields are in the range of 9.9-11%*
- Raised USD500mn through US dominated bonds at fixed coupon of 3.3% - base size of USD300mn received over-subscription of 5.1x.

#### **On asset quality**

- There is not even a single government project under Stage 3 as of now. But some govt exposure is under 1-89dps.

#### **On disbursements**

- Due to covid, implementation of generation projects has been delayed and hence generation disbursements QoQ have slowed down significantly in Q3.
- Moreover, 2 borrowers (under generation segment) prepaid their borrowings that also resulted in run-down in loan book.

#### On consolidated performance

- Cons PAT up 17% YoY while loan assets grew 13% YoY
- Due to resolution of stressed assets in both PFC & REC, NPA ratios are falling QoQ for both the entities
- Fee income includes prepayment charges of some loans in generation segment.

## Power Finance Corporation Q2FY21 Earnings Concall Takeaways

#### On lending to discoms under government liquidity scheme

- **PFC & REC together has sanctioned Rs 1.18tn, of which PFC has sanctioned Rs 590bn**
- **PFC & REC together has disbursed Rs 310bn, of which PFC has disbursed Rs 140bn (entire under tranche 1)**
- All disbursements made under tranche 1 are guaranteed by state government
- These funds are to be released in two equal tranches. For tranche two, there are certain reform related conditions which are to be fulfilled by states and discoms
- Tranche 1 entire disbursement should be done by Dec'20 or Jan'21 and some portion of tranche 2 will also happen in current fiscal itself

#### On large projects resolution

- **Total 25 projects are under stress of which 17 projects are being resolved under NCLT, while 8 projects are being resolved outside NCLT**
- KSK Mahanandi, Ind Barath Energy Utkal, South East UP Power, Lanco Amarkantak and Shree Maheshwar are being resolved through NCLT while RKM Powergen, India Power Corp (Haldia) & Sinnar Thermal are being resolved outside NCLT. **Total of the 8 mentioned projects comprise 75% of stage 3 assets.**
- Provisioning is being on expected credit cost model for the above projects
- **RKM PowerGen (100% commissioned project and generating revenue) – closer to resolution. All lenders have agreed except one bank and hopeful that the pending bank will also agree to the resolution. Provision is sufficient and don't expect any impact on balance sheet.**

#### On moratorium & restructuring

- **Rs 200bn of the dues have opted for moratorium. Morat accounts fall under stage 1 category.**
- Company is not expecting any restructuring from these accounts

#### On asset quality

- RKM PowerGen is already under Stage 3
- **Two accounts with exposure of Rs 17bn assets are under Stage 2, but not classified under Stage 3 due to SC standstill. Both these accounts are under construction.**
- Private sector total stage 1/2 is Rs 346bn of which Stage 2 is Rs 23bn

#### **On renewable projects**

- Of the total sanctions in H1FY21, Rs260bn is towards renewables - - Adani Green, ACME, Kalpana etc.
- **Company is focusing more on renewable and hence going forward, major disbursement will be towards renewables**
- If an individual projects needs Rs 20bn of funds, then PFC tries to be a sole lender rather than getting into a consortium

#### **On dividend**

- **Usually, PFC announces dividend in Q3 of the FY and hence will look for interim dividend announcement, if any in Q3FY21.**
- During Q4FY20, there was a transactional loss due to foreign exchange movement and hence company had some losses on foreign exchange side. Hence, company will look to announce final dividend after considering covid impact, foreign exchange movement and company performance.

#### **On merger with REC**

- Acquired REC in March 2019
- Aligned policies with REC on – project specific funding, revolving payment facility, letter of understanding etc.
- Collaborated with REC in relation to interest rates for similar kind of projects, rating methodology for generation and transmission projects
- Jointly resolving projects where both the entities are co-lenders and harmonizing processes
- Achieving economies of scale – difficult to quantify
- Working along with REC and aligning with them

#### **On ALM profile**

- ALM profile - 6.30 years for assets & 4.99 years towards liabilities. Hence, net gap is now reduced to 1.3 from 1.4 in March.
- ALM 1Y – liquidity mismatch around 20-25%

#### **On yields, cost & margins**

- Lower borrowing cost aided margin improvement
- **PFC has not changed its card rate unlike REC and hence its yields have not moved sharply like REC**
- PFC has changed its card rate from 1<sup>st</sup> Sep and hence the impact is likely to be seen in coming quarters

#### **On borrowings**

- **For FY21, Rs 900bn borrowing plan has been revised to Rs 1.3tn.** Presently, company is raising through domestic sources and if exchange rates are favourable, then company might also look for foreign borrowings.

#### **On power demand and growth**

- Power demand slowed down during April & May but now power demand is at similar levels as of Sep'19
- **Power demand increase of 5-6% YoY should continue in future**
- **Loan growth of 14% YoY, in-line with guidance.**
- Project based disbursements have been impacted due to COVID. But due to introduction of liquidity support to discoms by government, PFC has been able to maintain credit growth.

#### **On outlook**

- Focus on T&D and prioritize on lending towards discoms in-line with government guidelines
- Project based growth would be lower while growth would be seen under government liquidity scheme
- **Loan growth for FY21 is expected to be in the range of 12-15%**

#### **Other highlights**

- Capital adequacy ratio continues to improve and is above 18%
- Going ahead, normalized tax rate can be expected in the range of 18-20% excluding adjustments related to deferred tax

#### **On consolidated performance highlights**

- Consolidated PAT and interest income growth by 45% and 17%
- Consolidated capital adequacy ratio at 17.5%
- **Consolidated loan book grew 15% YoY**
- Consolidated Net NPA fell 25bps to 2.6%

## RBL Bank Q3FY21 Earnings Concall Takeaways

### On macro and near term strategy

- High frequency indicators suggest sharper recovery. Key monitorable with be success of vaccination efforts.
- **Wholesale banking demonstrated good stability and quality** – giving confidence to start growing again in prudent manner.
- **Stress in retail business loans, MSME and MFI is somewhat higher; MFI – have seen challenges in certain geographies.**
- MSME – new business has been deliberately slowed down.

### Outlook going forward

- Reduce inherent risk in business model and provide enhanced visibility of earnings consistency.
- Greater focus to grow secured annuity business of the bank – affordable housing and low cost mortgages – has put up 65 branches and will add another 10 branches
- In FY22, will focus on rural businesses by expanding product offerings.
- Granular growth in deposits to improve handsomely
- Cost of funds improvement trend will continue enhancing lending competitiveness
- Wholesale only focusing on better rated category and steady BB & below book gives some confidence. Facility-wise BB & below would be near 3.5% compared to disclosed numbers of >6%
- Have internal growth driver – have added ~180 wholesale banking customers (>100 on asset side and 70 on liability side). After run-down and consolidation, now should start seeing this portfolio growing.
- Credit card market share will consistently increase.
- MSME and micro banking has seen higher stress than anticipated.

### On asset quality

- **Proforma Gross NPA ratio would be 4.57% (compared to 3.5% in Q2FY21).**
- **Proforma GNPLs in retail (ex-MFI, ex-credit card) is 4.5% and corporate proforma GNPA at 4%.**
- **Proforma slippages at Rs14.7bn (almost 10% run-rate) – however there were aggressive write-offs to the tune of Rs7.8bn thereby containing rise in GNPA. Provisioning coverage consequently declined to 70% (from 73% in Q2FY21).**
- **Bulk of the slippages are on account of retail slippages – Rs13bn.** Has taken full NPA equivalent provisioning on the same.
- **Final restructuring is expected to be within 1.5% of advances.**
- **Of the 9.4% exit moratorium credit card portfolio – 5% is written off, 2% is in SMA-1/2, 0.5% in SMA-0, 0.7% restructured and 1.2% standard.**

**On provisioning**

- Proforma book - PCR is 71%.
- **50% of contingency buffer has been utilized to the extent of Rs2.8-3.0bn during the quarter.**
- Provisioning coverage is in the range of 50-55% as write-offs are aggressive in few of the portfolios.
- On business banking, would be comfortable with 15-20% cover given the collateralised nature and low LTV.

**On operating metrics**

- Net Interest Income settled lower than expectations - de-grew 2% YOY/3% QoQ to Rs9.1bn
- **NIM at 4.19% - subdued due to reversal of interest income on proforma slippages – yields moderated more than 80bps QoQ to 11.5%.**
- **NIMs and other income trajectory should reflect pre-Covid run-rate**
- Core fee income grew 5% YoY and 37% QoQ to Rs5bn – this was led by sharp rise in card related fees to Rs3.3bn (from 2.0bn in Q2FY21). Spends were depressed in moratorium fee and was not collected in Q2. Late fee flowed in Q3FY21 and also new card origination fee led to rise in credit card fee income.
- Operating expenses grew mere 2% QoQ – still down YoY more than 10%

**On deposits**

- Granular deposit traction is strong and back to pre-Covid levels
- Deposits continued the momentum growing 4% QoQ
- Retail Deposits (as per LCR definition) grew 24% YoY and 10% QoQ to Rs244bn – 36.3% of total deposit (compared to 31% YoY)
- **CASA grew 24% YOY and CASA ratio was stable QoQ at 31.1%**
- **Cost of deposits were lower 27bpd QoQ and 100% bps YoY to 5.71%**
- **Incremental growth in savings in 2.5x in 9mFY21 than the last years**
- **Customer acquisition has doubled YoY**
- LCR is 164%

**On advance growth**

- Advances were flat (up mere 1% QoQ/down 5% YoY) at Rs564bn - it was primarily due to moderation in commercial banking portfolio – down 5% QoQ/down 29% YoY
- **Credit card portfolio grew 30% YoY/8% QoQ to Rs121bn**
- Retail advances actually grew 16% YOY/2% QOQ
- Wholesale: Retail mix at 42:58

**Micro banking update**

- Bureau rejection rates have picked up from 20% to 24% on account of higher delinquencies in the market
- Stress in Assam, WB, Punjab and part of Maharashtra
- **Collection efficiency is stable at 92% - in WB, Maharashtra, Punjab at 88-90% and Assam at 60%.**
- New disbursements undertaken in a conservative manner
- Initial months they started making payment but then activities took some hit and collection efficiency was impacted.
- In Assam, has stopped disbursements since Nov 2019 and portfolio is down to 2.4%
- Post June have added Rs22bn to MFI book and this operates at 99% collection efficiency
- **In FY21, expect proforma GNPLs to go up from 2.6% to 5.0-5.5% and credit cost of 2.5%.**

**Credit card update**

- New card business is back to pre-Covid level – market share improved to 4.8%
- Have been acquiring 0.12mn customers every month and cards in force are up to 3.03mn
- Spend growth was 23% QoQ and 4% YoY – 40% gain in market share YoY
- Spend per active card is better than pre-Covid level
- **Previously indicated credit cost was expected to 10% for FY22 – proforma GNPA's at 5.7% and credit cost in 9MFY21 was**
- **Restructured 4% of book in November and December** – entry rate into delinquency is better than pre-Covid level.
- **Annualized credit cost of 5.0-5.5% in steady state**
- Of the 9.4% exit moratorium credit card portfolio – 5% is written off, 2% is in SMA-1/2, 0.5% in SMA-0, 0.7% restructured and 1.2% standard.
- Collection efficiency is 100% in the credit card portfolio
- Interchange has come down from 1.45% to 1.35% as large ticket spends on travel, hotels are not happening.

**Business banking segment**

- Bounce rate of EMI still elevated at 1.2x pre-Covid level
- ECLGS was helpful – disbursed Rs6.6bn – Rs5.5bn was to MSME retail segment
- As of December end Rs500mn is restructured
- GNPLs to 6% compared to 4.5% currently. Loss given default is likely to be low
- New business has been deliberately slowed till economy stabilizes

**Other highlights**

- Will add 7-80 branches this calendar year
- Reward points for delinquent customers are reversed and hence operating expenses is contained – also not actively pursuing

## RBL Bank Q2FY21 Earnings Concall Takeaways

**Asset Quality:**

- Rs 900mn under standstill, but taken NPA provisions towards the same
- PCR increased by 11% in last 6 months
- Rs 3.1bn covid provisions (58bps), total Rs 6.64bn of covid provisions (121bps of advances)
- Almost 40-50% reduction in exposure in the large corporate and that is reflection in reduction of BB & below exposure

**Credit & Liability profile:**

- Continue to invest in digital and physical
- Seeded a couple of new initiatives like affordable housing
- Covid impact on wholesale book is quite insignificant since efforts were taken before hand to improve the asset quality and rating profile of wholesale book
- Bank hardly has any disbursements towards new to credit customers
- Bank has not been aggressive on cutting rates as of now

**Guidance:**

- Credit cost guidance maintained which will be similar to FY20 levels, give or take 5% and management thinks that this will be a great achievement
- Of the total credit cost, 2/3<sup>rd</sup> from retail side and 1/3<sup>rd</sup> from corporate side (including legacy accounts)
- Covid lasted longer than anticipated and despite that bank is able to maintain credit cost guidance
- Now with things improving, bank is able to give the credit cost guidance with more confidence
- Well placed on retail liability, asset quality and growth front
- From Q4, bank will be back to NII of Rs 10bn

**Capital:**

- Current CET 15.1 and total CAR of 16.5
- Approval from RBI for capital raise of Rs 15.66bn
- CAR at 18.7 and CET of 17.4 including capital raise

- Capital issuance from Bahrain to the tune of Rs 10bn for 9.5% stake (Rest is ICICI Pru and 2 other existing investors, dhawja capital and CVC capital totaling to Rs 5.66bn)
- No board seat, no lock-in, no conditions and hence no impact on management for Bahrain investor
- However, 1 yr lock-in applicable to all since it is preferential allotment

**Collection Efficiency:**

- LAP 93% of our pre-covid levels
- Large corporate – everyone is paying normally like they used to do to pre-covid

**Cards business:**

- Aug 20 - 16% value across 9% customers under morat
- Only 9.4% of portfolio was overdue as of Sep and now at 8.6%
- 54% of 9.4% have not paid since April-May which is 5% of portfolio and in-line with expectations
- Only 0.4% is 90+dpd as of September
- Bank able to stick to loss forecast for credit card portfolio
- In September, spends at April/March levels and up on YoY
- Active cards are still below pre covid levels but improvement from June
- Spends for active card crossed pre-covid levels
- Still a portion of cards have stopped spending on cards and we want to bring them back by offering offers during this festive season
- Credit card issuance - expect pre-covid levels by December and improvement from thereon
- Total portfolio at 2.8mn cards, slight increase QoQ
- New two cards launched in September – first is unique and another is tie-up with zomato
- Cards average spend at Rs 9,000 in September vs Rs 7,450 in June
- Active rate at 45% in September from 39% in June
- Spends at active cards are higher at 20,000
- September, EMI bounce rates were higher but much lower in April reflecting slower
- Collection efficiency at 94% of pre-covid levels in cards business
- Credit losses would be around 10% of cards portfolio
- 78% of spend mix is towards daily expenses
- Delay or no repayments in cards is a function of delayed salary, some have lost jobs while on self-employed, it is because businesses are not opening up or is taking time
- On credit cards default, 63% is from salaried while 37% is from self-employed

- On cards portfolio, 70% of total cards portfolio is towards salaried
- Large part of cards portfolio comes through Bajaj Finance

**Microfinance:**

- 6.7% have not paid any instalments in microfinance as of today against 9% in September. Of this, bank says that it can expect 15-20% of this might slip, 15-20% might upgrade and rest stays as it is.
- Collection efficiency is calculated as considering demand for the month
- Issues in Assam, West Bengal, few markets in Punjab and some markets in Maharashtra

**MSME:**

- Disbursed Rs 4.3bn under ECLGS

## REC Ltd Q3FY21 Earnings Concall Takeaways

### On asset quality

- Asset quality is certainly going to improve in the coming quarters as well
- *Provisioning on standard assets is around 0.38% and hence company doesn't expect more provisioning on standard assets going forward.*
- Stage 3 loans provisioning is 62%
- ***Projects worth Rs 73.11bn comprising 7 projects are already resolved. These includes RKM Powergen, RattanIndia, Lanco Teestha, Lanco Anpara, Facor, Essar Transmission, TRN, among others. All these assets are out of Stage-3 now and company had a recovery rate of 60-100% for all these assets with an average of 80%.***

### Break-up of Stage 3

- ***Rs 21.78bn - resolution plan approved and under implementation)***
- ***Rs 44.36bn - under resolution outside IBC***
- ***Rs 116bn under resolution within IBC***

### Project-wise details

- **RKM PowerGen** – 50% of the principal has been restructured with no haircut and company has taken 26% Equity (sustainable debt has to be kept at 60% for the firm)
- **KSK Mahanadi** – Admitted and resolution process is underway; 3 main entities operating
- **RattanIndia Nashik** – company is trying for a resolution outside NCLT
- **IPCL Haldia** – approved the restructuring; by end of Feb should conclude restructuring
- **Essar Power MP** – admitted and bids have been received; Adani has come with the highest bid; CoC is taking decision on that

### On liquidity infusion scheme

- ***Disbursements – Rs 1.35tn (REC - Rs 665bn & Rs 690bn - PFC)***
- ***Sanction – Rs 460bn (REC - Rs 240bn & Rs 220bn - PFC)***
- Remaining disbursements should be completed by Q1FY22
- ***Yield was 9.5% and spread is in the range of 2-2.5%***

### On dividend

- Dividend should be expected in the same range (in-line with the past trend)
- ***Company would continue to announce interim dividend***

### On loan portfolio

- ***Loan book is expected to grow in the range of 10-12% for FY22E (past 7 yrs CAGR has been ~14%)***

- For FY21, 16% growth was largely driven due to mandatory disbursements.
- Well diversified portfolio with 90% of the loans in the govt sector and ~10% to the private sector
- 79% is in capex loans, while non-capex loans are ~21%
- Top 10 borrowers constitute 40% of the total loan book.
- Total exposure in Andhra Pradesh is ~Rs280bn.

**On yields & cost**

- Cost of funds has been in the range of 7-8%
- ***Cost of funds is expected to go down further***
- Company has raised 10Y rate at 7% and 5Y at 6%
- ***Expect yields to remain ~10.5%.***

## SBI Cards & Payment Services Q3FY21 Earnings Concall Takeaways

Business trends in Q3FY21 were positive – first time post Covid, the industry has reported YoY growth in November. SBI Cards' business fundamentals are robust and continues to grow leveraging on its strength and parent support. It is continuously monitoring external environment and changing consumer behaviour.

### Earnings delivery has been stable

- **SBI cards reported earnings of Rs2.1bn – down >50% YoY/flat QoQ. Net revenues grew 3% YoY/flat QoQ.**
- Receivables grew 4% YoY to Rs258bn
- **Operating expenditure grew 7% against revenue growth of 3% - Higher advertisement cost and cash back incentives (Flipkart campaign) during festive season – benefit of business growth will follow later. Collection costs have also gone up as efforts are intensified. With recoveries it should normalize.**
- Credit risk impacted by Covid pandemic - **Credit cost came in higher at 10% run-rate at Rs6.5bn. Made additional contingency provision taking cumulative contingency provisioning buffer stands at Rs 11.13bn.** This is over and above base provision of Rs9.4bn.

### On asset quality

- **Proforma GNPLs were at 4.5% - Rs11.6bn (compared to 7.46% - Rs17.7bn in Q3FY21)** including Supreme Court standstill accounts of Rs7.49bn (Rs7.6bn in Q2FY21). Proforma net NPL at 1.58% (from 2.7%)
- **Movement of proforma GNPLs - Fresh slippages would be Rs4bn, write-offs of Rs6.5bn, recoveries just short of Rs4bn**
- In terms of segments - Self-employed and category B class plus customers associated with impacted sectors namely airline, restaurants etc. are showing stress
- Write-offs are higher and pool is higher; also this quarter saw recoveries of Rs3.7bn from RBI-RE income – so recoveries for Q3FY21 at Rs1.25bn should not be assumed as one-offs.

### On RBI-RE book

- **RBI-RE walk – Rs61.3bn of new booking and recovered Rs3.8bn (not all accounts are closed but paid) taking outstanding at Rs23.44 – 9% of the portfolio.**
- Of the RBI-RE, 33% (Rs7.8bn) is delinquent between 31-90 days – provided same stage-3 ECL levels. Some part of this is included in proforma GNPLs – in normal course would have been written-off and would have moved out of GNPLs.
- **65% provisioning created on Rs7.8bn – 10% RBI requirement, 55% management overlay.**
- 50% of customers have paid all their instalments be it 3-4 instalments – with payments coming through the tenor may not be 18 months as anticipated earlier.
- People were wary of restructuring and getting tagged as NPL later – with a tool they went to customers for RBI-RE with benefit of lower interest rate. Many people sitting on sideline expecting waiver benefit then opted for the option.

- Major part of RBI-RE book was created during September and October – so would have seen 2-4 cycles.
- **54-55% of RBI-RE has not missed even one instalment prior to Covid – so this were stable customers.**
- Easy Payment Plan is Rs5bn – its provided at 1% standard asset provisioning – payments are regular in that book.

#### **On spends**

- Card-in-force grew by 15% to 11.5mn as of Q3 FY21 and receivables grew by 4% to Rs257bn.
- New accounts volume has increased 8% to 918K accounts (compared to 688K in Q2FY21).
- New Accounts sourcing in Q3FY21 daily average: at ~107% vs Q4 FY20; at ~134% vs Q2FY21.
- Retail Spends crossed pre-Covid level. Q3 FY21 daily average at ~125% vs Q2 FY21; at ~117% vs Q4 FY20
- Secular shift towards online – proportion is now at 53.5% (despite offline spends also going up). Categories likes apparels – has gone up 5x online.
- Growth not only coming from online but significant movement witnessed in Point of sale – worst affected segments of airline, travel, restaurants is now down 42% compared to being down 67%. Once travel comes up, will see further traction.
- **Departmental stores, fuel category – not only spends have improved but EMI conversion remains very active**
- **On GPay – 50k transactions though of smaller ticket size**

#### **On sourcing**

- Sourcing is normalizing in favour of open market – this quarter it was 48%:52%
- Acquisition cost from banca channel is much better
- 4% of self-employed is from open-sources and 20% is through banca – tightening

#### **Rationale for decline in yields**

- Revolver book has converted into RBI-RE at lower rate of interest.
- Once this book runs-offs and EMI and revolver proportion goes up, it will normalize in the next year.
- Transactors proportion has gone up to 33% compared to normal run-rate of 28-29%.
- EMI should trend back to 30% plus from 28-29%.

#### **Other highlights**

- Credit ratings remains strong
- Liquidity continues to be strong
- CAR – 23.7%, Tier-1 at 19.8%

## SBI Cards & Payment Services Q2FY21 Earnings Concall Takeaways

SBI cards reported earnings of Rs2.06bn – down **45% YoY/47% QoQ**. Despite tough operating environment has delivered 37% PPOP growth.

Credit cost came in higher at 14% run-rate at Rs 8.62bn, up 78% QoQ and 162% YoY. Made additional contingency provision of Rs 2.68bn taking cumulative contingency provisioning buffer stands at Rs 7.58bn. **The company had not created any contingency buffer in the previous sequential quarter.**

### On asset quality and restructuring

- Gross NPA spiked to 4.29% (Rs10.28bn) vs 1.35% QoQ and 2.33% YoY and net NPLs at 1.4%.
- 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.
  - Customers in RBI RE are blocked for spending – one-fourth of scheduled EMI is paid, then will open up the card.
  - **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.**
- Stage-2 would largely include standstill and RBI RE accounts
- 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**

- Card-in-force grew by 16% to 11mn as of Q2 FY21 and receivables grew by 4% to Rs240bn.
- **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.
- **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.
- 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%

**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.
- Delinquency (30 days plus) in each of these categories is better than others.

**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 khushiyan” contactless awareness campaigns

**Other highlights**

- With business moving back to normal, opex rose 23% QoQ but was lower by 10% YoY
- As a result, operating profit improved 12% QoQ and 37% YoY to Rs 11.4bn
- In ALM, more than 5 years' assets pertain to non-credit card receivable and some other assets
- Interest on interest waiver – will refund it to them based on Supreme Court judgement – hope is will have to be timely compensated by government – impact is not significant.
- 12.5L was moratorium – one-third has paid up in Q1FY21.
- Liquidity continues to be strong
- CAR – 25.3%, Tier-1 at 21%

## Shriram City Union Finance Q3FY21 Earnings Concall Takeaways

### On collection efficiency and proforma stage-3

- **Proforma stage-3 declined QoQ to 6.46% from 6.67%.**
- On stage-3 assets, it is carrying coverage of 53% and stage-1/2 assets of 4.2%.
- **Restructuring request received of Rs1.5bn and has invoked this but approved Rs200mn this quarter; rest of Rs1bn will be done in the next quarter**
- Collection efficiency (including arrears) is 98% - normal pre-Covid was 96-97%,
- **Billing against collection was 77-78% - even in pre-Covid it was 76-80% - 30% collection still happens in cash (10% has moved to digital from 40% cash collection run-rate earlier).**
- 2-wheeler is lower than other products – else in most of the other segments it is 94-100%
- Stage-2 was close to 10-13% prior to pre-Covid; in Q3FY21 it was 7%; 31-60 dpd would be 4% and 61-90dpd would be 3%
- Internal stress testing shows that they are comfortable with existing provisioning – carries Covid related provisioning of Rs5.9bn.
- At a point it is confident that it will be able to hold on this numbers and manage credit cost sub-3%.

### Other aspects of asset quality

- Current disbursements have **merely 2% top-loans; 30% of disbursements is to existing customers who have completed the loans**
- Board approved write-off policy – account by account, agreement by agreement – has write-off of Rs2.09bn (annualized 2.8-2.9%)
- Credit cost guidance – generally in Q3 credit cost settle lower (this quarter it was 2.5%) – however, it generally budgets between 2.7-3.0% in pricing of products on an average

### On disbursements and growth

- AUM grew sequentially by 3.7%.
- **Q3FY21 has been relatively better - Disbursements doubled QoQ and even on YoY it grew 6% to Rs62bn**
- Mainstay products – MSME (grew 186% QoQ), 2-wheeler (grew 133% QoQ, highest ever disbursements) and gold too has grown well (24% YoY)
- Cautious approach to unsecured book – however no undue stress visible (already 10% plus stage-3) and hence have increased presence in this segment
- **ECLGS – disbursements Rs655mn**
- Introduced micro business loans up to Rs0.1mn

- SME and 2-wheeler will continue to be key growth drivers – currently constitutes 54% and 23% of AUM respectively
- AUM growth in Q4FY21 is expected to be better than pre-Covid levels and will move towards high teen growth in FY22 and beyond.

#### **Customer profile and geographical presence aiding stability in operations**

- Major customers are concentrated in traders and service industry; minimum exposure to manufacturing sector
- 70% of 2-wheeler customers are self-employed
- Tier-2/3, semi-urban and rural areas – this has insulated it majorly from affects from Covid

#### **NIMs and yields**

- ***Cost of incremental borrowing – Rs9.24% (down 31bps QoQ) – will further come down by 10 bps***
- Mobilised Rs43bn of 3year money at 8.24% – go for more long term borrowings
- Overall loan yields settled upwards of ~20% and NIMs at 12%

#### **Other highlights**

- Opex were higher sequentially due to commensurate increase in lending operations, disbursements, advertisement, dealer payout etc.
- India Rating took Shriram City off the negative list
- Liquidity backup available in the form of free unencumbered assets of Rs26.7bn, SLR investments of Rs8.8bn and undrawn bank lines of Rs3.7bn.

#### **Shriram Housing:**

- 17% AUM growth since March '19 to Rs31.4bn
- Split between home loan 63% (average ticket size is Rs2.2-2.3mn), 29% LAP (average ticket size is Rs2.7-2.8mn), 4% home improvement, 4% construction finance
- Proforma GNPLs would have 2.4% (instead of 1.71%); aggregate provisioning of Rs130mn.
- Collection efficiency - 97% on billing and 100% on total (including arrears)
- Adequate fund reserve of Rs6.78 bn
- Restructured request received of Rs500mn – expect to consolidate at Rs400mn
- Shriram Housing to raise Rs3-4bn of equity capital in couple of quarters

## Shriram City Union Finance Q2FY21 Earnings Concall Takeaways

### On collection efficiency

- **Company says that for such a granular lending business, collection is more important than lending. This is a collection business and not a lending business.**
- **SME collection efficiency at 93% in September (65% in August) and 2W also at 93% (August also at 93%) for September which constitute 80% of the firm's portfolio. Pre-covid levels, it used to be around 95%.**
- **182k customers (~1.5% of AUM) had not paid a single EMI from March to September. Of this, 122k paid in September and hence 58k customers had not paid in September as well. However, majority of the 58k customers have started paying in October.**
- Company generally doesn't collect partial EMI since the EMI amount is small
- Has created Rs1.01bn Covid buffer – taking cumulative buffer to Rs7.07bn (2.6% of advances)

### On restructuring

- Expect restructuring to be around Rs 1-1.5bn
- **Not more than 1% of the company's portfolio will go for restructuring.** It would be for Residential hotels, schools, standalone hospitals and 4-5 customers involved in real estate

### On asset quality

- **Stage 2 is 4-5% for September**
- There should not be much movement from Stage 2 to Stage 3 at this point of time

### On disbursements

- SME Oct'20 disbursements at Rs 2.5bn, which is slowly picking pace. (Rs 2bn disbursed in September and Rs 3.64bn in Q2FY21)
- 70% of Q2 disbursements done in October
- Disbursements would be ~70-80% of pre-covid levels in Q3
- Disbursements were lower in SME since company is very cautious on lending and there are also a lot of rejections. Company will continue to remain cautious over the next couple of quarters.

### On credit profile & growth

- **AUM growth expected to be flat or 2-3% growth for FY21, since the company is conservative on the SME portfolio**
- QoQ growth possible over the next 2 quarters, but that would be set-off by de-growth in the past 2 quarters
- **AUM mix would not be substantially altered in the coming quarters at least**
- Company is going slow into businesses dependent on construction industry

**On gold loans**

- **Gold loans done only in 5 states and not across pan India**
- Gold loans confined to South (Ex-Kerala) & Maharashtra
- Most of the customers either have an exposure with the company or have dealt with the company in the past and hence there are not much walk-ins
- Tenure is 150-180 days
- LTV is 60% on total book and 70% for incremental lending

**On 2W business**

- Typically, company does vehicle financing which are 3 years old and working largely through pre-owned 2W
- Average ticket size is 35-40k for 3 yr old vehicle and LTV is largely in-line with the peers
- This business is largely into Tier 2 & Tier 3
- Looking for Rs 30-40bn of disbursements over the next 1 year
- Yields are 3-4% higher for used 2W as compared to new 2W
- Majority demand for 2W is seen during Dusshera & Diwali

**On SME business**

- Ticket size is granular and most of the customers are involved in trading & services where cash flows are back for the borrowers
- Under ECLGS, company has done Rs 0.4-0.5bn disbursements while total sanction stands at ~Rs 1.5bn
- Will add 100 rural centers to service 2-wheelers and business loans

**On profit & loss**

- Credit cost should be in the range of 2-8-3% over the next 1-2 quarters

**On housing finance business**

- Average yield for the firm is 13.5%-14%
- RoE is housing finance business in the range of 15-16% in a steady state

**On liquidity & funding cost**

- Company is very comfortable on liquidity
- It mobilized 8.5bn retail TD at 9% and sourced funds using couple of NCDs & term loan
- It had Rs 3bn of excess liquidity over the past quarter and also has 3-4 sanctions in place. Hence, it is in full control on the liability front.
- Bank loan cost is around 9%
- **Overall cost of borrowing is 9%, which is lower as compared to past year**

## Spandana Q3FY21 Earnings Concall Takeaways

**Collections** - Collections stands at 96.2% including arrears. Adjusted for past month dues the same stands at 93% in Q3FY21 vs 89% in Q2FY21. The cumulative **collection stands at 82%**.

**Asset growth & disbursement trend** - Pursuing growth cautiously - AuM remained static only in Q1FY21 and from Q2FY21 onwards it started expanding AUM. Disbursements in Q3FY21 reached the pre-avoid level. Further, it disbursed Rs10.5bn in Jan'21, which is the highest ever. **Expects total AuM to reach Rs82-83bn by March'21.**

- ~80% of disbursements are towards existing borrowers while only ~20% was to new borrowers. It added ~64,000 borrower in Q3FY21 vs 2-3 lakh per quarter earlier.
- All new loans are disbursement on a monthly collection basis.
- Ticket size cap cycle wise – Incrementally it disburses Rs38,000 per loan with an average ticket size of Rs34,000.
  - 1<sup>st</sup> cycle average - Rs25000 ~50% loans to first cycle.
  - 2<sup>nd</sup> cycle not more than Rs50,000
  - 3<sup>rd</sup> cycle not more than Rs55,000.

**It reduced lending yields by 120bps during the last nine months.**

### **Write/offs.**

- Follow 90 DPD+ writing-offs policy. Accordingly, it written of rs~2.3bn in Q3FY21 in 120 DPD. ~55,000 borrowers are partly paying and part of PAR 60 DPD, of which accounts worth Rs2.3bn are already in 90 DPD as at Dec'20 and against which it carries a provision of Rs4.1bn.
- State-wise break of write/offs in Q3FY21- MP Rs340mn, Odisha Rs510mn, Chhattisgarh Rs200mn and Maharashtra Rs420mn.

### **Asset quality.**

- Proforma GNPL stands at 2.7% (after write/offs) while Proforma NNPL stands at 1%. Including write/offs proforma GNPL would have been 4%.
- Non-Paying customer - ~2.2% of customers are still remained inactive as on Dec'20.
- It raised Rs6bn from Retail investors at 10.5% but with higher fees at 1.5-2%.

Customer mix - 92% Rural and 8% Urban.

The marginal cost of borrowing increased by 80bps in Q3FY21 to 11.4% vs 11.1% for 9mFY21.

**Provision** – Carry excess provision of Rs4.1bn (~5.9% of AuM) against estimated stress pool of Rs2.3bn and hence expect some write-back in Q4FY21e.

On the balance sheet debt increased from Rs33.5bn in Sep'20 to Rs46.2bn by Dec'20, the primary reason for higher increase cost. In order to maintain 3 months' collection as

liquid assets it went for aggressive borrowing in Q3FY21. Total Liquidity stands at ~13% of assets.

**Why not they have entered Assam and WB -**

- Assam –Per capita income or GDP or daily wages doesn't qualify for this kind of AuM per borrower, as per their internal model. In 2014-2015, the outstanding per borrower was Rs40,000, hence not started operation in Assam. Learning from AP crisis.
- WB – pulled out due to high customer leverage. Started operation but very cautiously but when they experienced significantly higher rejection rate at 70% vs 25-30% Industry average. Most borrowers were either having more than 2 lenders or having more than Rs1 lakh outstanding.

**Rolling out Monthly collection model** - Company started the transition to monthly repayment in late-2019, in response to customer demand, driven by a lower time commitment from their side. It believes Industry has evolved, where more frequent borrower meetings were once required to maintain discipline – no longer needed, as borrowers have become more experienced with MFIs and credit bureaus as on Dec'20, ~75% of its AUM is on the monthly repayment, and it is consistently demonstrating superior collection efficiency.

## State Bank of India Q3FY21 Earnings Concall Takeaways

### Opening commentary

- **Disruption caused by pandemic is reversing and mood across (industry and consumer confidence) is changing more towards optimism.**
- Consumption related indicators showing positive signs and have come back to pre-Covid levels.
- Year ahead holds lot of promise for economy in general and banking sector in particular.
- **Long term strategy to maximize pre-provisioning operating profit, favourable mix shift towards low cost deposit base on liability side and better risk adjusted return advances on asset side. Digitization is also one of the key agenda.**
- Has been able to manage asset quality very well.

### On proforma slippages and SMA pool

- Pro forma GNPLs were down from 5.88% to 5.44%. Net addition in proforma slippage at Rs20.4bn in Q3FY21
- **Normal slippages (with SC dispensation benefit) were Rs63.9bn in H1FY21 and Rs2.37bn in overseas account. Over and above this, proforma slippages were Rs164bn in 9mFY21.**
- Rs20.73bn is the net increase in proforma slippages – there were upgrades of Rs60-70bn from proforma reported in H1FY21.
- **SMA-2 pool has risen from Rs34bn to Rs125bn – of this Rs24.9bn is included in restructuring and Rs23.5bn in proforma slippages for 9MFY21. Should be able to pull back significant portion of SMA-2**
- Collection Efficiency at 96.5%.
- Closely observing behaviour of the book and it has not been easy going – but lot of collection efforts have been involved.

### On restructuring

- **Restructuring applications at Rs181bn (0.8% of advances) - well within guidance range of sub-1%. Corporates are at Rs117bn, retail at Rs38bn (primarily housing) and SME at Rs25.5bn.**
- Rs45bn of restructuring is already done. Doesn't expect any abnormal spike in Q4FY21 in restructuring in SME (may be some additions but not substantial).

### On provisioning

- Outstanding provisions - Covid provisions at Rs60bn (Rs30bn in Q2FY21 + Rs30bn in Q3FY21), provision on proforma slippages of Rs53bn (Rs32bn in Q2FY21 + Rs20.7bn in Q3FY21) and Rs14.6bn (Rs6.5bn in Q2FY21 + Rs8.1bn in Q3FY21) provisioning on restructured pool.

**On ECLGS and SME credit**

- ***ECLGS – sanction is Rs 260bn (Rs250bn in Q2FY21) and disbursement is Rs230bn (compared to Rs220bn in Q2FY21)***
- SME credit expanded 6% QoQ primarily due to tapping opportunities outside of ECLGS.

**On NIMs**

- ***Net interest income came in at Rs288bn– growth of 2-4% YoY/QoQ.***
- ***Domestic NIM for the quarter at 3.34%, has remained stable sequentially. Impact of interest on stress pool (proforma + restructuring) would be 9-10bps – this is in provisioning line item and would be P&L neutral.***
- ***MCLR is above 75% and repo rate linked is 15% - repricing of MCLR will be due in six months.***

**On growth**

- Credit Growth stood at 6.73% YoY, mainly driven by Retail advances (15.47% YoY), SME (5.62% YoY) and Corporate Advances (2.23% YoY) - Including the YoY growth in corporate Bonds / CPs of Rs442bn, the loan book has grown by 8.16% YoY.
- Personal gold loan book at Rs175bn, up four times in six months; Xpress credit up 35.7% YoY.
- Xpress credit is extended for tenor of 2-3 years and NPLs even in ageing book is less than 0.5%. This pre-approved personal loans are given to high salaried customers after stringent underwriting. ***16mn customers are existing in corporate salary package and within this also, it has penetrated only to the extent of 40%.***

**On employee cost & wage bill**

- Monthly salary bill is Rs22-23bn will continue – so salary expenses of Rs69bn will see a normal growth.
- Bank has accounted for Rs26.8bn (Rs65bn) towards wage settlement paid during the quarter. Otherwise, retirement benefit related provisioning is generally Rs30-35bn per quarter.
- Provisioning for retirement benefit will be dependent on yields.

**On fee income**

- Fee income – erratic behaviour during Covid pandemic has got its impact and not been very consistent across quarter.
- Loan processing, commission on LG/BG, remittances should pick up momentum going forward. Cross-selling also through various initiatives is witnessing decent improvement.

**On investments**

- Investment depreciation includes write-down on security receipts – Rs85bn of SRs - normal MTM is Rs11bn and accelerated provisioning is Rs18bn. Provisioning of Rs6bn per quarter is expected to continue for few more quarters.

- Treasury gain is low as this quarter movement in yield was almost flat. AFS duration remain low so opportunity to book significant profit was not much.

### YONO

- Moved gold loan and PAPL to more towards digital loans – 41% of retail sourcing is through digital channels.

## State Bank of India Q2FY21 Earnings Concall Takeaways

### Opening commentary

- **Assessment suggests improvement in economic activity – closer to 90% of pre-pandemic levels**
- Visible uptick in retail disbursements and sanctions – growth on YoY basis
- **Asset quality holding up well – Slippages for H1FY21 Rs200bn including standstill accounts – from this, it is able to pull back half of proforma slippages**
- Adequate provision made and shouldn't create earning volatility
- **Raised Rs199bn in Tier 2 (Rs160bn) and AT1 (Rs40bn) capital during the quarter**

### SBI's long term fundamental strength

- It is an institution unmatched in scale; even on higher base (being a market leader) has grown retail loans at 20% over past several years
- Leverage analytics to its best – be it credit assessment, underwriting, risk management, sourcing etc.
- 28mn registered user base in YONO.
- Evolution of subsidiaries is one of its key strength – each of them have emerged as leaders in their respective segments.

### On collection efficiency and restructuring

- **Collection efficiency – of Q2FY21 – 97% - payment received over EMI dues. This doesn't include morat accounts up to August where there were no EMI demand dues.**
- Demand in each account whether it is serviced or not – so arrears are not included in collection efficiency
- **3% of loans would be customers where dpd would range from 1 day to 89 days (SMA-0/1/2) – it has further come down by 50bps in October.**
- October would be slightly better at 97.5%. Difference between segments would be marginal. Home loan collection efficiency is lower than personal loans.
- Estimated slippages of Rs200bn for H2FY21 – provision coverage in corporate (legacy) book is 88%. In corporate book has done very granular analysis at RM level – so its bottoms up.

- Made provision of Rs34bn towards housing loans in Q1; excluding that loan loss provisioning would have been Rs60bn. Compared to this, in Q2FY21 Rs56bn is provided towards loan loss
- SMA-1/2 would not be reflective of stress
- **Restructuring** – In retail, 48k accounts approached for restructuring amounting to Rs24bn; in corporate segment, it was Rs40bn.
- **Should have lower burden on credit cost provisioning in H2FY21** – more a factor of how economy evolves

### Resolutions

- Attempting that compromise and settlement is activated. NCLT process will resume by the end of this fiscal.
- Recovery of Rs60-70bn anticipated in remaining half (H2FY21)

### Upgrade from proforma pool

- From the proforma slippages that had pulled slippage run-rate to 2.9% includes standstill overdues of Rs144bn – the **bank highlighted that Rs59.6bn is already upgraded in Oct 20.**
- **Out of SME NPLs of Rs50.8bn has pulled back Rs30bn.**
- **Out of Agri NPLs of Rs90.5bn – pulled back over Rs11bn.**
- ECLGS total disbursements were Rs220bn and sanctions at Rs250bn.

### On corporate rating profile

- Declining proportion of AAA & AA rated to 57% (from 63% in Q1FY21) is more of reflection of the status on rating profile the corporates.
- **Also draw-down from the account by corporates in respective rating category also alter the proportion** and A rated corporate would be drawing relatively more.

### Retail book profile

- Credit growth in retail back to pre-COVID 19 levels
- **Disbursements and sanctions are significantly higher YoY for Sept 20 and Q2FY21 across retail products – Home loans witnessed 12% YoY growth in disbursements, auto loans at 27% YoY, personal loans at 61% (gold loans grew more than 4x YoY)**
- Xpress credit has grown 32% YoY/10% QoQ – the eligibility goes up with rise salary levels
- Xpress Credit – 94% of the customers are government employees/defence – none of the account, salary has been impacted.
- Home loan – 50% government, 20% well rated corporates, 30% high credit worthy self-employed.
- Home loan borrowers are the first time borrowers with relatively small-mid ticket size.

**NIMs**

- Rs8.76bn of interest on proforma NPLs which was accrued (and not reversed in this quarter) – this would have had an impact of 5 bps on NIMs.

**On employee cost and wage revision**

- ***Wage settlement has been revised from 10% to 15% - provided Rs10bn in Q1FY21 and also provided Rs10bn in Q2FY21.*** Salary bill would increase by Rs2bn per month due to wage revision – this is lower than what it has been providing over past few quarters.
- Provision for employees consequently has gone up from Rs45.5bn to Rs56.4bn – so incremental delta of Rs16bn.

**On capital raise or value unlocking**

- CAR is 14.72% and has recently raised AT-1 and Tier-2
- ***Capital is sufficient to manage the near term growth – plough back will further help to shore up capital adequacy***
- Will engage with investors at appropriate stage, time and scale for value unlocking in YONO.

## Yes Bank Q3FY21 Earnings Concall Takeaways

### Opening remarks

- Confidence coming back – demand for credit as well as collection efficiency improvement
- ***On deposit front, it grew 8% QoQ and 39% YoY – there is improvement in CASA to 26%.***
- Compared to 45-50k per month CASA account mobilization it has now reached to 85k monthly run-rate; in Q3 opened 225k CASA accounts – this is despite gradual reduction in interest rates
- ***Retail and MSME seeing traction – target of Rs100bn was set for Q3FY21 and it has beaten than to Rs120bn.*** In corporate segment, Rs20bn was disbursed.

### Standstill and overdue exposure has risen

- Reported GNPLs of 15.4% (corporate at 25.8%, retail at 0.46%, MSME at 2-3%) - slippages during the quarter were almost negligible at, Recoveries & Upgrades of Rs10.66bn and write-offs of Rs17.5bn.
- During Q3FY21, advances of Rs13.8bn were classified as standard restructured on account of deferment of DCCO.
- ***Standstill (had Supreme Court's interim order not been there) is Rs 83.2bn (in Q2FY21 is was disclosed at Rs23.9bn) – equivalent to 5% (1.5%) of advances.***
- ***Overdue exposure: 31-60 dpd at Rs123.2bn (compared to Rs26.2bn) – equivalent to 7.3% of advances, 61-90dpd Rs65.4bn (compared to Rs40.6bn) – equivalent to 4% of advances.***
- ***Besides the restructuring from standstill of Rs12.6bn, 31-60 days of Rs 25.7bn, from 61-90 days of RsRs31bn, it has further restructured Rs11.2bn.***
- ***So in all, if we have to look at overdues, standstill and restructured (including DCCO), stress due to Covid pandemic now seems to 17-18% (compared to 7-9% highlighted in Q2FY21).***
- Covid related stress is being reflected in some adversely impacted sectors – hotels, restaurants.
- ***Against this stress pool, it carries Covid related buffer of Rs26.8bn (1.6% of advances).***

### On provisioning of Rs22bn during the quarter

- Rs7.65bn of additional Covid provisioning
- Provisions for investments of Rs5.3bn includes Rs4.7bn of additional provisioning towards NPI exposures in a diversified conglomerate
- Rs5.4bn due to provisioning as per prudential framework for resolution of stressed assets
- Further increase in PCR offset by Rs7.4bn of write-back due to recoveries

**On recoveries**

- Made decent recoveries in Q3FY21 Rs15.12bn – of which P&L impact is Rs12.83bn (for 9MFY21 – recoveries of Rs 29.47bn from which P&L impact was Rs24.3 bn)
- Retail segment collection efficiency has improved to 96% (compared to 97% during pre-Covid)
- Strengthened the team to ~100 (v/s. ~40 earlier)

**Operating metrics**

- Net Interest Income grew 29.7% QoQ to Rs29.6bn - aided by higher NIMs at 3.4% up ~30 bps QoQ – ***interest is being recognized on standstill accounts as well as other overdues outside of GNPLs.***
- Non-Interest income came in at Rs12bn which included investment profits of Rs5.4bn. Otherwise, retail banking fees is gaining significant traction at Rs4.1bn (compared to Rs3bn in Q2FY21 – up 38% QoQ).
- Third Party Sales expected to further accelerate over the coming quarters driven by new partnerships (now 6 in total across Life and General Insurance vs. 2 earlier) under the open architecture framework.
- Operating expenses at INR 1,472 Crores declined 13.2% y-o-y. C/I ratio improved to ~43.0% # in Q3FY21
- Operating profit grew 68% QoQ
- It has stepped up provisioning to Rs29.4bn; consists of additional Rs7.6bn towards Covid19 related provisioning (aggregate at Rs26.8bn) and balance majorly towards increasing PCR of both NPA and NPI.
- ***PCR for NPA improves to 76.8% vs. 75.7% last quarter; PCR for NPI at 77.9% v/s. 70.6% last quarter***
- NNPA of 4.0% (vs. 4.7% last quarter)

**Other highlights**

- ECLGS cumulative disbursement would be Rs32bn (Rs10bn in Q3FY21 which would be ECLGS 2.0)
- Has taken enabling resolution from the Board for seeking shareholder approval to raise up to Rs100bn.

## Yes Bank Q2FY21 Earnings Concall Takeaways

### Opening remarks

- Happy to reports profit for 2<sup>nd</sup> consecutive quarter - reported PAT of Rs 1.29bn (up 185% QoQ on a low base while it had reported a loss of Rs 6bn in Q1FY20).
- ***Moving in positive direction - Despite reconstruction of bank plus impact of Covid disruption – it is progressing very well since March 2020.***
- Q2FY21 – MoM there is improvement in fresh business as well as collection.
- Quite hopeful that it should be back to pre-Covid level as there are green shoots in the system.
- Momentum that it is seeing in collection and behaviour of customers – there is significant improvement
- Bad loan bank – permission is in progress and is moving in right direction
- Made significant provision for Covid- 1.15% of total advances – will take care of slippages and restructuring.

### Proforma GNPLs would have risen by 1.5% and 30dpd at 4% of advances

- GNPLs remained at 16.9% (corporate at 26.6%, retail at 0.84%, MSME at 2-3%) - slippages during the quarter were almost negligible at Rs1.01bn, Recoveries & Upgrades of Rs3.05bn (spread over large number of accounts) and write-offs of Rs1.1bn
- ***Standstill (had Supreme Court's interim order not been there) is Rs23.9bn – equivalent to 1.5% of advance.***
- ***Overdue exposure: 30-90 days (excluding the standstill) Rs67bn (4% of advances) – Further breakup of this is: 30-60 dpd at Rs26.2bn, 60-90dpd Rs40.6bn.***
- ***Breakup of standstill + 30-90 dpd of Rs90bn – Corporate is Rs76bn, MSME is Rs9bn and retail Rs5bn.***
- ***Expectations as was highlighted due to Covid pandemic continues to be in the range of 7-9%.***
- Provisions for standard advances includes: Rs10.4bn for COVID-19. Aggregate Covid related provision at Rs19.2bn (1.15% of total advances) provides for potential slippages from the above exposures including potential interest reversals.

### Recovery on non-performing investments from HFC utilised to step up further provisioning on other non-performing conglomerate

- ***Cash recovery of Rs5.6bn from NPI exposure to Housing Finance Company - above recovery is on gross exposure of Rs27bn, which was fully provided earlier. Residual NPI exposure of Rs12.8bn to this entity remains fully provided.***
- Commensurate step up in provision of Rs5.48bn taking coverage on NPI exposure of Rs51.3bn to various entities of a diversified conglomerate from ~53% to ~63%.

- **Overall coverage on non-performing investments is 71% - seems sufficient as of now but may look to increase in case the need be.**

#### **On restructuring and collection efficiency**

- Restructuring requests – whether they qualify as per RBI norms and also looking at the viability – difficult to quantify at this point in time.
- **Collection efficiency – for retail** – precovid was 97% - as of September 89%; **for SME** – precovid was 94% - as of September is 80%; **in corporate segment** it is still lower.
- Moving in positive direction with respect to collection efficiency.

#### **On balance sheet**

- Balance sheet consolidation continues while improving granularity and liability profile.
- Reduction of corporate book to derisk the portfolio – however will evaluate opportunities if available on corporate segment.
- **Gross retail disbursements of Rs37.6bn predominantly towards secured loans. Small and Micro Enterprises disbursements of Rs 29bn; trending towards pre-covid levels.**
- **Targets to disburse Rs55-60bn and Rs40-45bn in MSME – this will also boost fee income**

#### **On liability front**

- Liquidity side getting good support from customers.
- RBI special liquidity facility of Rs500bn has been fully repaid. Raised long term refinance borrowing in excess of Rs55bn.
- Deposits grew 15% in Q2FY21 and 28% in H1FY21 – average deposit growth is 19%.
- CD ratio down from 164% to 123% - with customer support is able to repay well before the due date
- In Q2FY21 – 1.5L CASA account – more than 1.4L in Q4FY20.
- Corporate deposits have been up from 36% in FY20 to 44% in H1FY21 – if had to rebalance quickly and repay facility from RBI, it had to resort to corporate deposits.
- Going forward will reduce rate of deposits both on savings as well as corporate deposits.
- Term deposits by 25 bps and savings deposits side 1%

#### **On cost containment**

- **Good control on cost side – 21% YoY decline (4.5% QoQ). Expenses ratio, therefore moved to below 50%**
- Sequential reduction in cost was led by vendor / rent contract renegotiations, lower travel expenses, converted 35 Branches into BCBOs; rationalisation of ATM network amongst other initiatives

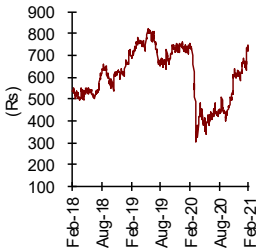
- Cost containment will be key to boost RoEs - has engaged a top global management consulting firm to assist in fast tracking near term cost reduction objective and in building a long term frugal, efficient and scalable cost structure.
- ***Lot of rationalization still possible particular from branches/ATM etc.***

**Other highlights**

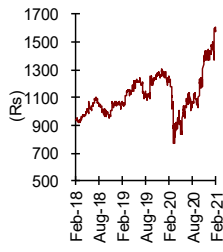
- Sustained operating profit at Rs13.2 was utilized to create Covid related contingency buffer.
- Two-third of standard real estate exposure is under construction.
- Retail term deposit is Rs510bn
- ***CET-1 ratio is 13.5% and overall CAR at 19.5%***
- Rating have been upgraded by CRISIL, ICRA, India Rating, CARE
- NII further improved 10bps to 3.1% thereby leading to 3% QoQ growth in NII to Rs19.7bn

Price charts

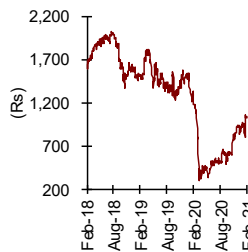
Axis Bank



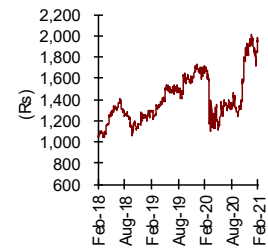
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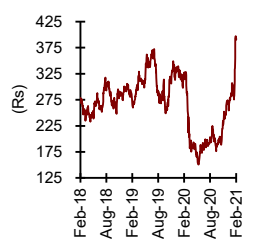
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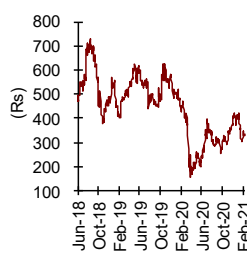
Kotak Mahindra Bank



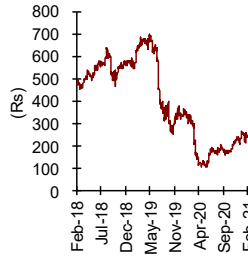
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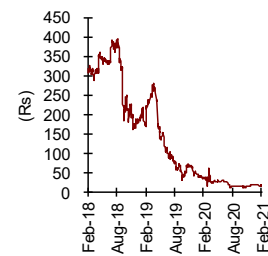
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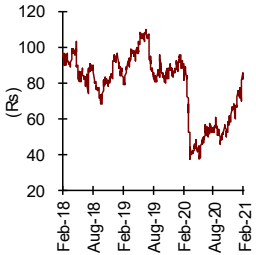
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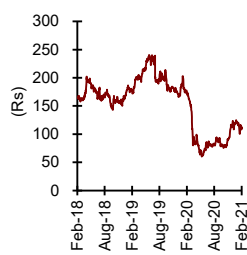
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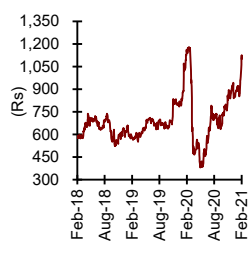
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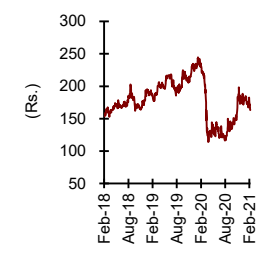
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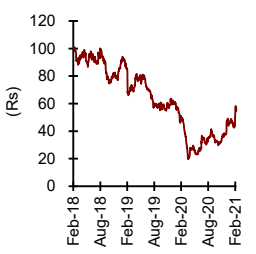
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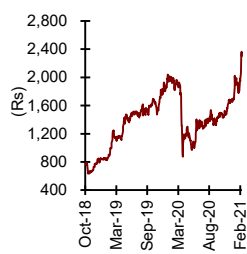
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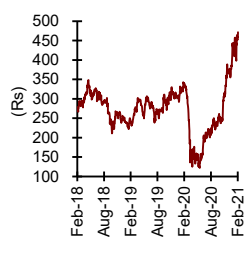
Karur Vysya Bank



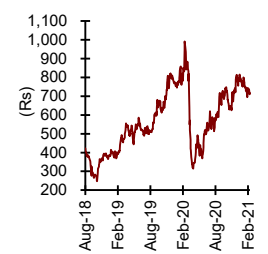
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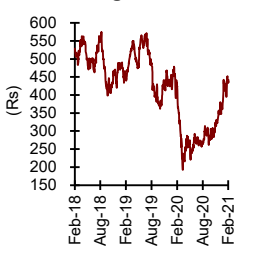
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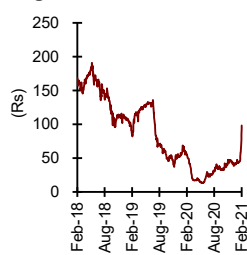
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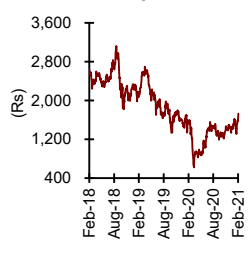
LIC Housing Finance



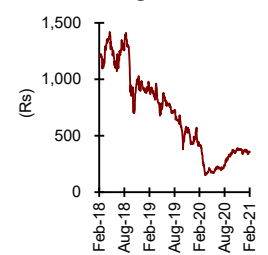
Magma



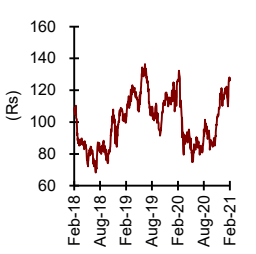
Piramal Enterprise



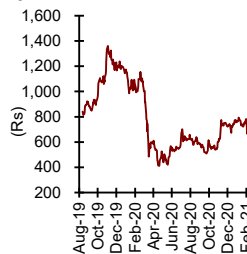
PNB Housing Finance



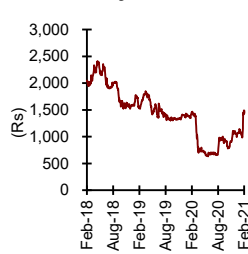
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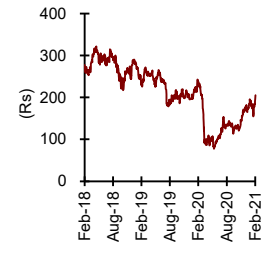
Spandana



Shriram City Union



Mahindra Finance



Source: Bloomberg

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