"CSL Finance Limited Earnings Conference Call for Q2 FY'2021"

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MODERATOR: **MR. GAURAV SOOD, KANAV CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the CSL Finance Limited Earnings Conference Call for Q2 FY'2021 hosted by Kanav Capital Advisors. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Sood from Kanav Capital Advisors. Thank you and over to you, sir.

Gaurav Sood: Thanks, Mallika. Welcome everyone and thanks for joining the Q2 FY'21 Update Call for CSL Finance Limited. To take us through this update and answer your questions, we have today with us Mr. Rohit Gupta – Managing Director and Promoter and Mr. Chandan Kumar-- Wholesale Credit Head.

We will be starting the call with a "Brief Overview of the Last Six Months Performance" and then follow up with the "Q&A Session."

I would like to remind you all that everything said on this call that reflects any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that they face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual reports which you can find on our website.

With that said, I now turn over the call to Mr. Rohit Gupta. Over to you, Rohit.

Rohit Gupta: Thank you, Gaurav. Good evening, everybody. CSL Finance welcomes you to Q2 2021 Investor Concall. Thank you for taking of the time for attending this call. We hope you and your loved ones are safe and healthy in these stressful times.

Pre-provisioning profits has significantly improved in this quarter by 15% to Rs.10.61 crores as compared to Rs.9.22 crores last quarter, but PAT declined by 5.38% to Rs.6.86 crores in Q2 as compared to Rs.7.25 crores in Q2 of the last financial year, the decrease in PAT was majorly driven by COVID provisions being maintained at Rs.4.61 crores. For half year number, our net interest income grew by 7.26% from Rs.23.69 crores to Rs.25.41 crores. Our PAT has shown a marginal growth of 0.66% from Rs.13.79 crores in first half year as compared to Rs.13.88 crores in this last financial year.

There is a higher risk of defaulting repayment post COVID lockdown. Our main focus has been on collection. Our collection team has been in regular touch with the clients through telecommunication or face-to-face meeting. Our collections have increased by 63.74% to Rs.87.29 crores in Q2 as compared to Rs.53.31 crores in Q2 of the last financial year. It has materially increased on quarter-on-quarter by 177% from Rs.31.42 crores in the first quarter. Our collection efficiency has been 85% in retail segment where collections have been impacted largely because of school loans. Our AUM increased by 5.53% to Rs.335 crores in Q2 of this financial year as compared to Rs.317 crores in Q2 of the last financial year. The

AUM growth has been lower due to high collection and our cautious approach towards new sanctions and disbursements. Our disbursement for this quarter has in fact increased by 66% to Rs.90 crores in Q2 of this financial year as compared to Rs.54.09 crores in Q2 of the last financial year. The loan growth in AUM is largely due to higher collections in spite of higher disbursement.

Now, coming on to "Operational Update," our wholesale lending AUM stands at Rs.269 crores as on 30th September 2020 as compared to Rs.249 crores as on 30th September 2019. It consists of four segments – Wholesale Large, Wholesale Small, Wholesale LAP, Loan against Securities. We have explained all these four segments in our concall earlier. The wholesale loan to mid income housing and affordable housing has been our main focus area since we started lending but gradually we are shifting our focus towards wholesale small and SME retail segment where the loan tenure and ticket sizes are smaller, so we can avoid concentration risk. AUM of wholesale LAP and LAS increased by 120% to Rs.66 crores in Q2 financial year 2021 as compared to Rs.30 crores in Q2 financial year 2020. This was largely due to two loans that got disbursed in this quarter. Our SME segment AUM stands at Rs.65 crores as on 30th September 2020 as compared to Rs.69 crores as on 30th September 2019. The decline in AUM is largely on account of higher collections and cautious approach towards new sanction and disbursement till economic activity achieve normalcy. In first four months of this, the disbursement was very marginal. Because of the higher collection and practically nil disbursement in first four months, the AUM has come down. Our SME portfolio consists of both secured and unsecured loans with over 90% loans being secured. We give unsecured loans only to K-12 schools where we have capped the ticket size to Rs.5 lakhs per loan and total portfolio of unsecured loan amount to Rs.6 crores as on 30th September 2020. COVID-19 pandemic has impacted the business across the segments and NBFCs weak balance sheets have been the biggest losers. We have been able to minimize the risk on our loan portfolio due to our prudent lending practices and close monitoring. We are not facing any stress in our existing portfolio except for school loans which we expect to become regular once the school opens. We are present in our rural and semi-rural areas for our retail segment where economic activity were less attribute to COVID-19 and that has helped in better performance of the retail portfolio. Performance of SME portfolio is as per our expectations and collections have improved to 75% overall. If we take out the school loans, the collections is roughly 60%. The collections efficiency is 85% for the remaining SME portfolio. Our wholesale loan portfolio has performed quite well; we have received repayments of Rs.88.68 crores as on 30th September 2020 against the total outstanding of Rs.269 crores. We have always been prudent in our operations and maintain LTV of around 45%. And given that peak stress for this segment is behind us, we do not foresee any big challenge in this loan portfolio. Furthermore, most of the funded projects are either complete or near completion. So the execution risk is no longer in play and these projects expect sizeable committed receivable from the **sold** but undelivered **(Inaudible)7:32.**

Now, coming to provisioning, we have a gross NPA of 0.25 crores as on 30th September which has been covered fully by the ECL provisioning. Our net NPA is almost negligible. As a prudent risk management practice, we have already provided ECL provision of Rs.6.33 crores under Stage-I and Stage-II of our portfolio. Loans under Stage-III, that is 0.25 crores have been fully provided for.

The NBFC sector has been facing challenges post lockdown due to rise in NPAs and equity challenges. Thanks to RBI which has introduced liquidity scheme for the NBFC. The liquidity has eased off now. We have also been beneficiary of the RBI liquidity scheme and were able to raise Rs.40 crores of private placement of NCD during this quarter. We have a comfortable level of liquidity and have maintained cash and cash equivalents of Rs.19.63 crores as on 30th September. We have repaid Rs.12.91 crores of our loans including prepayments of Rs.7 crores in Q2 financial year 2021. We have successfully issued NCDs of Rs.30 crores and replaced high cost debt with low cost debt, which led to a decline in the interest cost by 20 bps during this quarter. Our debt is reduced from Rs.96 crores as on 31st March 2020 to Rs.86 crores as on 30th September 2020 which includes the private placed NCDs of Rs.30 crores. Our CRR stands at 73% as on 30th September 2020 which is one of the highest among NBFCs of our size.

Thanks, everyone for participating on the concall. Your questions are important for us and we strive to be transparent in our investor communication.

Economic activities have now started picking up and with good monsoon and increasing rural activities, we think that worst is behind. We aim to maintain the high quality of our balance sheet while striving to grow our business in the coming year. Look forward to connecting with you all after the March '22 quarter result. Now, questions please.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Rohit, on the wholesale side if we look at it, we have seen the worst of the times and this book has largely been pretty resilient for us, we are still having pre-payments in this segment. Earlier, when we used to talk to you during concalls, you used to say that bankers have been pretty apprehensive about the wholesale lending and they have been telling us to focus more on the retail side. I think as the management also, we wanted to focus more on the SME part. So given the kind of collections we have seen in this segment and the resilient nature at least for our portfolio, any views on how this segment or any initial strategy for this wholesale segment going forward and do we now look forward to growing this segment in the coming two, three years or over medium to long-term?

Rohit Gupta: Thank you, Ankit. As you rightly said, the wholesale has been our main earning segment for us despite of a very difficult period for last four, five years, we have been able to perform reasonably well as compared to the problems which are being faced by the segment which we are in. This is basically because of a few parameters which we have always maintained in our credit policy around this segment which we look for projects which are affordable in nature where the people can live in location wise and which are nearing completion or where the sales have already happened and there is a certain stream of predictable cash flows coming in for the completion of the project. So that has been our basis for choosing those projects and till date we have been able to perform reasonably well. And now we are seeing that even this segment is also picking up in last two, three months, sales have been really very good as compared to what we were expecting and we would say, the worst part has also been passed during last four, five years where we have seen demonetization, GST issues, the RERA coming in and with this COVID. So already this segment has faced a lot of stress. So going forward, for us as we think that we have reasonable domain knowledge of this segment, we will definitely like to maintain and grow in this segment and even now the number of players are little bit reduced…bigger NBFCs are not focusing in the size with which we are, so definitely, we will like to grow in this segment and along with the retail part.

Ankit Gupta: And on the disbursement part, Rohit, we have almost touched Rs.90 crores during the quarter result in one of the highest in the past five, six quarters that we have seen. And looking at how the rural economy and overall economy has recovered across the country, do we think that in second half we will see some growth in our AUM and any kind of outlook or any kind of guidance that you would like to share over the next two, three years, what kind of growth are we targeting, when the worst seems to be behind us?

Rohit Gupta: If I talk about next two quarters, definitely, we are very hopeful that our AUM will also increase and we are sitting on unutilized credit facilities of roughly around Rs.50-55 crores which we think we will be able to deploy in next two quarters. In the last quarter, collections were very strong primarily because we have an escrow on all our projects and if the sales and collections are good, then the pre-payment start increasing which we are seeing in the last three months and even our first quarter were also reasonably good, seeing the situation at that time where most of the countries were under lockdown. So in spite of that, the first six months have been very good in the collection side. And the challenge has been on the disbursements as we were little cautious for first four months. Now for last two months, we have done reasonable sanctions and disbursements in this segment also. So we are quite hopeful that in the next two quarters our AUM in this segment will increase and overall AUM of company will also increase, but to give any number or percentage, will be a little difficult as still COVID is not over and we are primarily focused on those projects which are nearing completion or which are in affordable segments, so all those opportunity coming in our area where we are only focusing in the NCR segment where we think that we have reasonably domain knowledge or areas under NCR, around Chandigarh and somewhere in Jaipur side. So, we are quite hopeful that our AUM should increase in next two quarters. I will be able to give better picture for the next coming year in the March concall.

Ankit Gupta: Rohit, 85%ex-schools collection efficiency that you talked about, that is for the month of September or October?

Rohit Gupta: That is for the month of September.

Ankit Gupta: How has that trend been in October and …?

Rohit Gupta: It has been same, I would not say it is very high, between 85% and 88%.

Ankit Gupta: Because we also track a lot of microfinance and other NBFCs focusing on SME and loan below Rs.10 lakhs. Many of these well-run NBFCs are reporting collection efficiency above 90%, 92%, 93% and there has been month-on-month improvement in collection efficiency. So for us it is relatively little bit lower if we are around 85%, 88%. So any views on how this collection efficiency on the SME side is expected to be over the next two, three months?

Rohit Gupta: If you see bi-sector SME portfolio, our collections have been very good in Rajasthan and Gujarat. We have faced challenges in a few of our branches in Punjab and Haryana. Otherwise, a few of our branches our collection efficiencies were more than 95% also, few of the branches are doing even 100%, there are a few branches namely two or three branches where our collection efficiency is a little lower and that is also the loans which we did in the initial phase when we started our SME where our credit policies were not refined and our processes were lacking somewhat and those loans where we are seeing certain challenges. And if we just take out first year of operations, our collection efficiency is more than 90% in each and every branch. I will say that was first year of operations of SME if we just take out those loans. So we are doing reasonably good. The other part which is affecting us is the school loans which were very-very good before March lockdown where our collection efficiency has been more than 98%, 99%, we are down to 60% right now. And we are quite hopeful as the school open within two to three months we will see the portfolio will also come back with the same kind of collection efficiency.

Ankit Gupta: Rohit, how much is the total loan book to schools – is it just the 10% of SME unsecured book which is given to schools or some part of the secured book also include…?

Rohit Gupta: Secured also, we roughly have around Rs.22 crores in total school segment which includes Rs.6 crores of unsecured part.

Ankit Gupta: And the collection efficiency there has been…?

Rohit Gupta: 60-65%.

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

Siddharth Agarwal: Sir, how are we seeing the real estate sector pick up demand in the NCR?

Chandan Kumar: Siddharth, the overall demand that we are finding the traction but too much traction in some of the areas of the NCR, Gurgaon is doing exceptionally well in the affordable. Only the high ticket size segment that is not moving well into the market. Otherwise the ticket size in between 30 to 60 is picking up very well. Apart from that the affordable segment, that is of Rs.10 lakh housing, the demand is on a very bullet side and almost all the inventory, whichever the project is launched into the affordable segment is booked in one or two months of the launch itself. Definitely, in the retail housing there is a lot of traction in the Noida West market and the demand is too much there and we are finding that movement is there in the housing demand side.

Rohit Gupta: If we just see the projects which are nearing and are affordable in nature and where the location is good, we are finding that there is a reasonable traction, sales have improved, where we used to see that the projects are selling between anything zero to 10 units in a month, now they are back to 10 to 25 units in a month which is not very huge as compared to what it used to be in 2013-14 but reasonably very good and mostly it is end-consumer demand, so the projects which are affordable in nature, good location and certainty of getting completed, are finding buyers and especially in Gurgaon where we are into wholesale, small, builder flows has been exceedingly goodand the same is the case in South Delhi. The only issue is with the high ticket housing projects which are more than I would say 1, 1.5-crores where the demand is lukewarm. Otherwise, the sales for last two, three months has been very good, and if you are reading any real estate commentaries also, the demand is reasonably good.

Siddharth Agarwal: Rohit ji, we keep on hearing about a lot of consolidation that is happening on the builder side. So basically the expectation is that bigger or the established players are going to take larger market share and they are going to launch more and more projects. But that is not our target segment when we try to lend. So in our target segment, the smaller builders or mid size builders to whom we target to lend to, do you see an appetite for them to come up and launch newer projects or launch deal pipeline for us, how does that look?

Rohit Gupta: Whenever in any industry where boom to bust happen, the consolidation is definitely going to come. And even everything will go to the very large players, that may not be possible because when we talk about affordable, affordable is the segment where we have seen, if you have gone through the commentary of the DLF, even the Godrej, the bigger ones, they have not entered into the very affordable kind of a segment because it is a segment where your speed, your cost control, your hold on the local area, the authorities and all those is very important and even we are going to broker network, so the smaller players who have focus and working with reasonably good financial prudence and with right kind of good location and financial closures, they will continue to come up with new projects and a lot of our distinct borrowers have launched new projects in the last two, three months a little bit to our size also. And we also have seen that there is a lot of learning has also gone to these builders, what the mistakes they have committed earlier, they are much more prudent and much more smart and they have learnt from their mistakes. Going forward, if you ask me, I see this is one of the segments where it is very good for the lenders to lend because now the borrowers have become very prudent, they are cost-conscious, they are conscious of each and every cost, maybe the borrowing cost or the project cost, and they are putting a lot of thought and efforts before launching any project and going ahead, there will not be too much inventory finished or in the pipeline. So in two to three years where we see that the supply maybe less as compared to the demand. So builders who have been good and they will continue to perform better in the coming years. So, for us, as a small lender, if we see in terms of better proposals and more practical approach and with the domain knowledge which we have built during last seven to eight years, we think that we will be able to find space and we will be able to grow our business in this segment.

Siddharth Agarwal: Rohit ji, what is our collection amount in the wholesale segment during the quarter and are any of our borrowersstill postponing the payment?

Rohit Gupta: In the first quarter, 66% of the borrowers have gone for moratorium, but now in this quarter we have not given any moratorium to any of our customers and moreover if you see our collections are more than Rs.88 crores and which substantial part is prepayment. So none of the borrowers we have not seen any of that. So the collections have been very good on the part of our borrowers and same is reflected in our collections also.

Siddharth Agarwal: Sir, we have done exceptionally well in the wholesale LAP, so for this quarter could you just tell us a little bit more about what is the typical duration, LTV and the IRR for this product? And from a portfolio perspective, can we reach this to say Rs.100 crores in '21

Chandan Kumar: Siddharth, the thing is that the LAP is a thing where we are primarily focusing doing loan totally kind of a term loan structure. That is particularly against the properties. Only two or three loans are there which are provided to the builders, otherwise we have around 10 of the 11 accounts into the LAP portfolio. Most of them are MSME or kind of a business mix who have availed LAP from us. The average LTV in the LAP size is 45% to 50% maximum, in some cases we have 30%, and on the portfolio side the average LTV of the LAP is 40%. Now, on the future perspective, like we are not that much focused into the LAP, reason being that receivable is not that much hypothecated into the LAP portfolio itself. We are focused on wholesale large and wholesale small. Once the receivables could be escrowed and we have exact control on the receivable part. So in the LAP business we are not seeing that much opportunity. Yes, we are only doing LAP to those customers who are very much known to us and we are very much confident on their profile, portfolio and the businesses.

Rohit Gupta: Just to add on, what he means to say, LAP will not be a focus area for us, it is just an opportunity-based, sometimes we come across good proposal, where we think that this proposal will give us good IRR and we have a good, strong security and the repayments are predictable. Otherwise, because as Chandan rightly explained, we are focused on only those wholesale segment portfolio where we have an escrow on the receivable where we get regular receivable and we have a control on the receivable. And LAP is not our area where we straightly build up. There is huge domain knowledge. But the real estate segment whether it is affordable or bid housing, we think that we have reasonable domain knowledge of that segment in our area. So we like to continue to focus on that. It is only an opportunity based. So we cannot predict on the size or building of this portfolio too much.

Siddharth Agarwal: Rohit ji, while answering Ankit's question, you did mention that there has been a change in our credit policies which have resulted into better collection efficiency to the loans have been done in the latter part in our branches. So could you tell us a little bit more about have we started disbursement in the semi retail side?

Rohit Gupta: Earlier in the very first year 2016-17, when we started our retail, this was a new segment to us, so the credit policy was also evolving and even over a period of time we realize that even the processes has to be fine-tuned. On the recruitment side, so we fine-tuned where the processes and policies need to be improved maybe on the HR side, on the credit side, on the purchases side, where we found that there were a few lapses which we have done. That has been a year of learning for us and that would be for any company which start any new segment.

Siddharth Agarwal: In the credit appraisal, how are we screening our potential customers, any changes that we have done so that we understand how it is being done better than what was done in the past, if any possible to throw some light on this?

Rohit Gupta: The kind of customers we are dealing with are those in unorganized segment where you do not get any bank statement or any audited accounts to fall back on and it is to do while meeting the customers and analyzing the customers what he has done during the last five to ten years about the business what he is doing and if the references you are getting. Credit policies always ever revolving. But we keep on learning, to keep on adding to our credit policy part or even on the processes part. So Chandan, if you like to say in detail how we have fine-tined our credit policies?

Chandan Kumar: Definitely,there are few changes we have done majorly into our credit policy. Actually, we have divided into two parts: firstly onboarding of the client itself. So earlier, what we used to do, there were certain parameters like for the school loan itself, we changed the number of student from the register section, but now we added a few of the parameters, that come to our credit rated quality. Actually earlier also we used to do the same parameter, but now what we have evolved is that the number of parameters on the credit policy, like earlier we were able to board around 600 kind of CIBIL score customers, but now we have revised that 700 is only the benchmark, on which we will be building up the customer base itself. Second thing, various parameters have been added into while appraising the kind of the customer. Separate camps have been provided for each kind of industry, like for retail segment, we have made a separate camp, reason being earlier what we used to do is that there would be kind of a single camp on which every customer was assessed on a few of the parameters, but during the evaluation itself we have built in the various parameters and we have evolved different kind of camps for the different industries like for retail, we have different camps, for appraising a school loan, dairy loan we have a different camp for each and everything. So that is the kind of credit evaluation we did into the credit policy. Now, on the credit management part, that is the portfolio management part, in the case of term loan, whenever the customer is boarded, then there is a less requirement at quarterly or kind of a six monthly performance has been submitted for the performance of the loan itself. So we have started identifying the customer that how the portfolio is performing and basis where like performing, what are the reasons the customer cash flows are not coming on, there is any delinquency into the account, yes, it is there. So the policy of submitting the quarterly or six monthly performance is also involved into the portfolio management part. Even if the state head, branch head ask to remind the customer on a yearly basis, so that kind of a portfolio review and a portfolio monitoring could be done.

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

Ajay Sharma: I just had a couple of questions. The first one is to Mr. Gupta. Where do you see the company in five years or even in ten years, do you think that the company will still be giving the same kind of loans that is now with at a larger level or do you think the loan book might become more granular, what do you think the normal rate of growth?

Rohit Gupta: I have seen the last two, years that has been very difficult for the NBFC, the way we thought we would be in two years before, after the DHFL and a few of the bigger ones, so the fund raising has become little bit difficult and we have been very cautious on the cost side also, now in the last four, five months that has eased on. This year our motto has been to just to sustain ourselves to maintain our quality loan book and to add on low cost of borrowing if possible. And as you are talking about five to ten years, I would say little long but yes, definitely what we have gained a lot of confidence from what we are doing especially in the wholesale and now as we have also learnt from mistake from the retail side also and we would like to grow both the segments. One thing we know that we will not be able to go through the segment which are being domain of the larger NBFCs or banks. For us we cannot go into a product with an IRR of 9-14, 15%. Definitely, we will have to build a domain knowledge in those unorganized retail segment where because of your domain knowledge which you build around your credit policies and processes and if we are able to show our expertise and build a domain knowledge around that, we will be able to grow in that segment and there is still a lot of scope in that segment to grow. So primarily these two segments willbeour core focus area in next two, three years. Our focus will be to add on more lenders in our profile as we have been doing it, for the very first time we have been able to raise funds through NCDSs; two, there was a lot of apprehension among our lenders about the wholesale segment. Now even those lenders and our rating agencies are much more confident. So going forward the biggest challenge for the NBFC segment has been to raise funds on the liability side. So that will be a core area to focus on to build our liability side and to grow our existing segment. So I add other segment, I think it will be little too premature. For next 1, 1.5, 2-years we will be focusing on the existing segments only.

Ajay Sharma: Broadly, the company would still look very similar as it is today with the same kind of lending profile?

Rohit Gupta: Because still there is a lot of opportunity and if we are confident in the existing segment, I do not see to add on. Because as a smaller company, first, we have to build ourselves as a reasonable player in that segment itself than going ahead adding a few other segments. So that has been our approach. There is a lot of opportunity. We have not expanded in terms of branches during last 12-months which we are hopeful that we will be adding branches in next 12-months in a few of the states. And with the kind of learning we got during last two, three years both on the retail side and our experience what we got on the wholesale, so we will continue to focus on these two segments and build our growth to expanding to newer areas where our presence is not there.

Ajay Sharma: Are lending decisions made at the branch level or are they made at the headquarter level?

Rohit Gupta: The sanction powers are being given to the branch credit manager, but final approvals are being done at the central level.

Ajay Sharma: A little while ago you mentioned that the competition in the sector might have come down during last few months. Do you see this as a structural change for the NBFC sector or do you think when good time come back the competition will come back up?

Rohit Gupta: Definitely, because in this segment, there were lot of apprehensions in last two, three years about the wholesale segment and there were certain things which have gone wrong in the larger NBFCs, a little difficult segment to be in but going forward as we see this segment is very good and now a lot of real estate specific funds are focusing on for the last 12-months and I do see that a lot of NBFCs which have stopped funding will come back. But we are able to build our USP in our region. We definitely see that we will be able to get business and expand ourselves. And now we have become quite competitive in terms of the IRR which we are offering to our borrowers as compared to the larger players also.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Rohit, we understand last almost six to eight months have been quite tough given the environment in which we are. But as we speak more and more sectors are opening up, economy seems to be coming back on trail, certain sectors doing much better than what we were in pre-COVID level and certain sectors are still a year to reach those kind of levels especially the school segment which we are talking about. So, sir, my first question to you is like what we have been hearing from most of the companies is initial first two quarters most of the management spent lot of time on collections. So from your side, what were the three focus areas in last six to eight months and for next six to eight months what are the three focus areas?

Rohit Gupta: In last six to eight months and primarily after lockdown first four months mainly April, May, June, July, we were more focused on collections and visiting and meeting our existing borrowers. In case of wholesale, one-to-one meeting with those borrowers. At the same time, telling our credit team, back office team, operations team to improve our processes. We relook each and every of our existing borrowers and there was a complete audit done and we relooked at our credit policy. So, four, five months have given a lot of time to improve our existing processes and policies and we have relooked at that in the changing environment. And yes, definitely, the last two months we are looking for building our business. And in spite of having unpredictable high collections in our wholesale side, our focus has been on the disbursement. As you can see, we have done a disbursement of Rs.90 crores in last quarter which was higher than even what we have done in the previous quarter of last year. So, even we have started telling on the retail side also for last 1.5-months to focus on the business. And prior to that where our collections and improving the processes was the main focus area. For next four months, growing our business will be the main focus area, but at the same time we want to be cautious. Still a few of the segments are in a difficult position. Still we are not out of COVID. So, we will always be cautious and prudent but now the focus will definitely be on building our business.

Rahul Jain: Given the experience in the various segments which you operate and as you mentioned in previous question also that you have developed some kind of domain expertise in certain areas of lending, so as we speak today, any of the segments where you feel now you would focus more compared to some other segments, so on one side, on one segment we will have now much more focus and one other segment based on our learning, we feel probably in this segment probably we would defocus, something like that?

Rohit Gupta: The only change of strategy what has happened is we were a little very cautious on the wholesale side even prior to lockdown also because our lenders and borrowers who were very cautious what was happening in this industry and there was a caution around the industry, so we deliberately were not aggressive though we always felt very confident. So that will be again our focus area going forward along with the retail part where we have said we have learnt from our mistakes also which we did in our first year of operations, and a lot of effort has been gone into building our policies and processes around that. So definitely next six months, our focus will be just to grow our business.

Rahul Jain: So basically, no change in the focus on the segments which we are in already?

Rohit Gupta: Yes, if we are doing reasonably good and we feel that we are confident in those segments and those are the segments we can grow, so I think we see no reason why we should look for other areas.

Rahul Jain: With regards to segments and the areas in which we operate, typically who are our direct competitors if you could name some of them, I understand a lot of NBFCs are there, so when a borrower wants to approach, he would approach CSL Finance and apart from that two or three companies which he would generally come to?

Rohit Gupta: If we see the wholesale segment earlier even Reliance, DHFL, Indiabulls, IIFL, Edelweiss, they were very aggressive. Nowadays though our size is very-very small, there is a lot of funds which have come which are like Kautilya, Raymond James, those funds are doing on the retail side and a few of the companies IIFL, let us say, a few of the banks also, AU Finance and other bank, but still because of our domain knowledge, our presence in our area and USP round faster assessment and faster disbursal, that will continue to remain and the size is our limitation. So most of the proposals where come to us first and then go to other lenders. So we have built a good reasonable marketing network in our existing area. And coming to retail, every company has a lot of wealth and NBFCs are there. But we are primarily focused into the unorganized segment where those borrowers are not supported by any kind of banking or any GST return. So you can say companies like AU Finance, Capri, Muthoot, all those companies are active and the competition is definitely there but you build your presence through your faster disbursals, that is one of the USP which we have to have and better understanding of the profile where we are lending.

Rahul Jain: Sir, any ballpark figure kind of number which you could share in terms of where do we see our AUM 18-months from today to somewhere we could end FY'22?

Rohit Gupta: We have never given this kind of a forward-looking number in any of our previous concall. Definitely, I would only like to say that our AUM should increase in next four months as we have sufficiently utilized limits of around Rs.50 crores and we are hopeful of raising another Rs.20 to 40 crores. And to give the number for next year, I think March will be the right time to give those numbers.

Rahul Jain: How many borrowers would have not paid a single kind of installment till date?

Rohit Gupta: On the wholesale side, roughly around portfolio of Rs.260 crores, I would say there is only one borrower of Rs.96 lakhs who has not paid a single EMI till November where we have fully secured, where LTVs are less than 40%, 45%, they have availed a moratorium and last two months they have not paid. On the SME side, you can say apart from school loans which maybe roughly around 90-100 customers out of a total book of 1100 customers, and roughly around 50-70 customers on the SME retail side. Major credit cost will be coming from the school side which have been very regular. Our collections efficiency was 99% on the school side. It is only that schools are not allowed to operate. All our schools are based in semi-rural areas, rural areas where even they are not able to properly give classes through electronic mode, neither the students have that kind of infrastructure to support that, where the fees are not coming and the only answer which we get is whenever the schools will open, we will pay though we have a security in terms of schools or their private property of the borrowers. So in terms of LTV we are fairly secured but yes, that is one area where out of Rs.22 crores, you can say Rs.10 crores of schools are not paying till date which we have already provided ECL provision of roughly around Rs.4.6 crores and we have been aggressive in making provisions whenever it is required. And apart from that we do not see too much challenge coming from wholesale or the retail section. School is only one area which is temporary and understandable, otherwise which was very good in terms of regular repayments have been extremely good prior to the lockdown.

Chandan Kumar: Now the thing is that in school loan also, 100% of our customers have been met by our branch team and even the state heads also.And we are very much confident that once the school resume operating, we would be able to collect 100% of their EMI. We are finding that customer is having an intent to default. But yes, the problem is there and we are 100% sure that all the portfolio of the school loan would be also regular once the school starts operating.

Rahul Jain: What is the incremental cost of borrowing for us for NCD?

Rohit Gupta: Borrowings have been at sub-10% as of now and even our weighted cost of borrowing has come below 10% and we have repaid loans which we were having around 11-12%, we want to repay roughly very small percentage out of Rs.96 crores borrowings, we have more than 10% cost of borrowings and where prepayment charges are too higher because we are very keen to repay even those loans.

Rahul Jain: And the incremental borrowing is also at around…?

Rohit Gupta: Below that. Our rating has been one deterrent for us and going forward if we are able to improve it, definitely the cost of borrowing will come down.

Moderator: Thank you. The next question is from the line of Anand Jain, an individual investor. Please go ahead.

Anand Jain: Rohit, we say retail collections efficiency is around 85% till September and 88% until October. So what are the expectations around like remaining 12%, 14% who are not paying until now?

Rohit Gupta: We already provided roughly around Rs.4.6 crores as ECL provision for stage-1 and stage-2 and we primarily keep this for the SMA part, so you can say around 6-7% and given this quarter we have provided Rs.128 crores, that was totally on the SMA segment where even we have reasonable securities, where we are very conservative, we have fully provided in our books. So if definitely schools do not start repaying us in next February or March, we may see that out of Rs.22 crores where Rs.10 crores of the accounts are not paying, we may have to provide in next financial year but I am very-very hopeful that schools are bound to open and we cannot see the economy or a cycle without school, so definitely those cash flows are bound to come, it is only a matter after the restrictions which have been imposed by the government. If we just take out the school's challenge, we think we have adequately provided for our credit cost.

Anand Jain: When you talk of Rs.4.6 crores that we have provided until now, it is both for the schools and also for the SME?

Rohit Gupta: Yes.

Anand Jain: There is a possibility of Rs.10 crores extra on the credit cost side?

Rohit Gupta: Schools are closed everywhere. 60% are paying in spite of cash flows not coming from the schools, maybe from the other sources of the promoter. And as and when they see the chance of becoming NPA, most of the borrowers will not make those account NPA, there may be delinquent of 40-60-days but everybody is prudent and they do not want to be an NPA, and the kind of inputs we are getting from the team. And the other thing we have to learn that school as a segment, we cannot write-off that it will not come back, that is definitely because of the restrictions and the customer is not allowed to operate. So definitely there is a challenge in the immediate period to say that this Rs.10 crores provisioning has to be made. If that maybe the case, we will do that, we have been very prudent and aggressive in making provisions, but at the same time we do think that these borrowers will come back as and when the segment is allowed to open.

Anand Jain: So my next question is that in pre-COVID times, the real estate sector was anyways under deep stress and the rate of borrowing for retail versus wholesale lending was different. How is the rate of borrowing for retail and for the wholesale segment?

Rohit Gupta: None of our lenders have seen that way, they have seen the company as a whole, so there is no such big cost of borrowing for our retail segment or for our wholesale. That has not been the case with us till now.

Anand Jain: So the lenders are totally fine if what we borrow we lend it to retail or we lend it to…?

Rohit Gupta: Yes, there is not a single restriction from any of our lenders to just to lend to retail or just to lend to wholesale.

Anand Jain: We were a wholesale lending company and then we entered retail. And over the last two years, irrespective of the market conditions, we have done far better in wholesale, whether it is in terms of IRR cost or whatever metric you took. Going ahead would our focus be more on the wholesale side or more on the retail side?

Rohit Gupta: I would love to be in the wholesale but at the same time to mitigate a risk and to build up presence on the retail, so we have chosen a domain where we do not see too much competition coming from the larger players, so we just want to build the domain knowledge in that segment and the learning what we got during last three years of lending into retail, now we are much more confident on the retail side also. Otherwise, wholesale has been our bread and butter and we have been able to perform. And going forward, our focus will be on both the segments. So we want to have a right mix, maybe 60 for wholesale and 40 for retail I think for next two, three years.

Anand Jain: Some of the erstwhile aggressive lenders like Edelweiss or Piramal or Jain, these guys have now kind of started to shrink the book, some of them are also out of the market. And if we really want, we can grow our wholesale book really fast at this point of time. Do you see at what kind of a) debt-equity ratio are we comfortable with and at what level of debt-equity are we looking to raise capital and when do you see that happen?

Rohit Gupta: Definitely, we are not looking into any capital for next one or two years. First, we want to get 2-2.5x debt-equity ratio on our wholesale book and 4-5x on our retail book, should be the right kind of mix. Receivables sometime become lumpy, they can be cyclical. Because of those reasons, we do not want to go beyond 2-2.5x in the initial stage and 4-5x on the retail side.

Anand Jain: Are we looking to grow our wholesale book outside of NCR because NCR has been like…?

Rohit Gupta: Definitely, we are trying to grow as and when we have done a few lending in areas around Chandigarh, Mohali, Panchkula and all those areas, even something around near Dehradun, around Uttarakhand and even we can look at Rajasthan. So just for the sake of geographical spread, we do not want to go because where we have size, we will definitely go into newer areas but till we have opportunities in our own areas, so it makes more sense to remain there. One thing is this segment requires a lot of domain knowledge, about the area and post lending you have to monitor it very closely. So unless and until we have a size, we have to have a good team around that station permanently to look into a newer location. Definitely, just for understanding the new areas, we have done a few projects in those areas. Going forward, as and when our size grows, we will definitely be going into a few of those pockets which I have told.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Rohit Gupta for closing comments.

Rohit Gupta: I would like to thank everybody for participating into this first half concall of CSL Finance and we look forward to seeing you after March results. Wish you all a very healthy and safe year. Thank you very much.

Moderator: Thank you. On behalf of Kanav Capital Advisors, this concludes this conference. Thank you for joining us and you may now disconnect your lines.