"Dhanvarsha Finvest Limited Q1 FY-21 Earnings Conference Call"

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MODERATOR: **MS. PALLAVI DESAI – WILSON FINANCIAL SERVICES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Dhanvarsha Finvest Limited's Q1 FY2021 Earnings Call hosted by Wilson Financial Services Private Limited. As a reminder, all participants' 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.

On this call we have Mr. Karan Desai – Joint Managing Director, Mr. Rohanjeet Juneja – Joint Managing Director and Mr. Sanjay Kukreja – CFO.

I now hand the conference over to Mr. Rohanjeet Juneja. Thank you and over to you, sir.

Rohanjeet Juneja: Good evening, everyone. Welcome to the first quarter earnings call for fiscal 2021 for Dhanvarsha Finvest. As you all may know Dhanvarsha is a tech enabled finance company that focuses predominantly on the MSME segment in India. We lend to retail centric businesses and consumers who depend on their business for a livelihood. The company has spent a considerable amount of time in the last 3 years to build a solid foundation for growth, corporate governance and transparency.

As a company we have always believed that today's adversity is in our success. Post the ILFS default in September 2018 when our own book was Rs. 660 million with 156 borrowers translating to an average ticket size of Rs. 4.3 million, the company recalibrated its strategy to focus on smaller ticket and more granular loans to conserve capital and de-risk the loan portfolio. From then until today our borrower count has gone up by 563% from 156 to 1,050 borrowers while the average ticket size of loans has gone down by 87% from Rs. 4.3 million to Rs. 0.55 million. Approximately 96% of our loan portfolio qualifies for priority sector lending. This is a remarkable achievement and we are now at an inflection point where we will demonstrate rapid profit and loan growth with superior risk adjusted margins as we embark on what we call Dhanvarsha 2.0.

What is Dhanvarsha 2.0? With our loan book having bottomed at Rs. 370 million in March 2020, our loan portfolio today is exceptionally granular with an AUM in excess of Rs. 550 million and an average ticket size of Rs. 0.55 million per account. We have more than 1,050 borrowers on our books, which has more than doubled in the last few months. July and August have been extremely good months with disbursements of Rs. 148 million in over 600 accounts translating to an average ticket size of Rs. 0.25 million per account on incremental lending.

Post September 2018 and even more so after the lockdown resulting from COVID-19 three things have come to the forefront for most financial institutions: Liquidity, capital efficiency and collaboration. We firmly believe that we have demonstrated outstanding performance on all these accounts despite our size. With all our learnings and an over capitalized and liquid balance sheet, we now have the opportunity to grow faster and more profitably since many other indebted players have pulled back from the market.

This is very similar to what happened with microfinance and gold lending in the early part of the decade in India. Therefore, Dhanvarsha 2.0 is about how we scale up the loan book to Rs. 10 billion in the first phase followed by an AUM of Rs. 50 billion between on and off-balance sheet loans with a 5% ROA threshold given our unique sourcing strategy along with capital efficiency on the balance sheet.

How do we get there? As you would have seen in our earnings presentation on page 6, we have substantially over capitalized with a capital adequacy ratio of 67.6% and a debt-to-equity of 0.7x. This has resulted from capital conservation being priority number one from September 2018 onwards and more importantly promoter equity infusion earlier in April 2020 for conversion of warrants into equity shares. To further boost the capital levels for robust loan and profit growth in the next few years, we have signed a definitive agreement for capital infusion of Rs. 1.3 billion into the company with a PE investor, our promoter group Wilson Holdings and key management of the company.

We are anticipating closure of this transaction in the next few weeks. This is a substantial milestone for the company since the net worth post infusion will be in excess of Rs. 1.6 billion and our debt-to-equity will go down to 0.2x. On the lending side, we have identified exactly where we want to grow in the MSME segment to achieve our targets on growth and profitability. Today we have a diversified product offering which comprises of LAP, business loans, medical loans, education loans and recently launched gold loans.

We have a unique sourcing strategy that involves not just traditional feet on street and DSAs but more importantly direct collaborations with associations along with co-origination, co-lending and first loss default guarantee from partners. We have FLDG (First Loss Default Guarantee) partnerships in place with 6 players who have unique sourcing engines with the first loss default guarantee provided to Dhanvarsha that ranges from 20% to 100%.

We are in advanced stages of discussions with a few financial institutions for co-origination. Given all these efforts, we are extremely confident that our goal of getting to Rs. 10 billion in AUM in the first phase and Rs. 50 billion in phase 2 between on-and off-balance sheet AUM with capital efficiency and profitability of 5% ROA at the forefront should be achieved by calendar year end 2022.

Many of you will be wanting to know about the existing risk in the book today and the impact of COVID-19. We are extremely fortunate to have slowed down growth from September 2018 until December 2019. In terms of current portfolio exposure we have lent to 22 sub-sectors in the MSME space with little concentration risk in the book. The essential goods segment which comprises of Health, Wellness, Technology, Kirana Stores, Food and Drinks is 38% of total loans.

In the last few months education has become the big component to with almost 9.6% of current exposure. As you would have seen in the presentation, we have been able to successfully bring down gross and net NPAs with our relentless efforts in the last 18 months. We expect continued improvement in NPAs in fiscal 2021 as we collect on legacy loans that are part of the NPA bucket.

In the last two years, the company has also built a significant allowance for loan losses of Rs. 47 million almost 11% of gross loans to protect the balance sheet from any exogenous risks. We follow extremely conservative underwriting and collection policies with our head of credit and underwriting being a former banker who spent 32 years in a large PSU Bank. Our head of collections comes from a former NBFC and two very large and well reputed banks with significant expertise in recoveries and litigations.

We have no related party loans, any loan above Rs. 5 million has to be approved by the credit committee headed by the Chairman. Any loan above Rs. 20 million has to be approved by the board. Our board comprises of 8 members of which 5 are independent directors.

Approximately 23% of the portfolio at June end was in moratorium due to COVID-19. We are pleased to say that more than half of these borrowers in moratorium have repaid their EMI in early September. Our efforts on collecting from remaining borrowers are ongoing and we are hopeful that a good amount of them will repay. For the benefit of investors, we prepared a base case, bull case and bear case scenario on the impact of COVID-19. Let me start with the bear case first.

Today we have approximately Rs. 42 million in loan balances that had yet to pay an EMI post the end of the moratorium. We have a loan loss allowance of Rs. 47 million which is more than adequate to write off the entire Rs. 42 million even in the worst case scenario. If we want to be super conservative and assume that all gross NPAs and loans and moratorium would result in 100% loss given default which is very unlikely, the hit to net worth without eating in to the allowance would be 3.6%. If we include the allowance, the hit would be less than 1% of our net worth.

In the base case scenario that 50% of the Rs. 42 million slips into NPA and we have a 100% loss given default on loans in moratorium and GNPA's, that would be a 2.4% hit to net worth. In the best-case scenario, without eating in to our allowance, the hit to net worth would be less than 1%.

Now coming on to first quarter of fiscal 21 results; disbursements were Rs. 47.8 million versus Rs. 35.6 million in the previous quarter and Rs. 14.2 million a year ago. Net revenues were down 11% Quarter-on-Quarter to Rs. 46.9 million from Rs. 53 million in the previous quarter due to lending only recommencing from May 26^{th}. With robust disbursement growth in July and August, we expect interest income to pick up meaningfully going forward. Profit after tax stood at Rs. 7.4 million in 1Q21 up 117% Quarter-over-Quarter from Rs. 3.4 million in 4Q20 due to a 26% reduction in operating expenses.

The loan book today is exceptionally robust with over 70% of loans will be secured by collateral. For unsecured loans, we thoroughly assess the vintage and cash flow of the business along with banking history. Average ticket size of the unsecured book is under Rs. 0.3 million and the majority of end use for unsecured loans is business expansion. Total debt was Rs. 246 million on June 30th versus Rs. 156 million in the previous quarter.

Note, Rs. 103 million of debt will be converted to equity with the announced transaction that we expect to complete in the next few weeks which will take down our debt-to-equity ratio to 0.2x. The balance sheet is extremely liquid with Rs. 94 million of liquidity as of June 30th. We have two debt lines: one from HDFC and the other one from Bank of India. We hope to have another large lender on our roster very soon.

Now I will hand over the call to my colleague, Karan Desai to talk more on process and products. Over to you, Karan.

Karan Desai: Thank you, Rohan. Good evening, ladies and gentlemen. As Rohan has already aptly covered the last two years have been a rollercoaster ride for the overall economy and in particular the financial services sector after being backed out by the September 2018 contagion in the NBFC space. We are now looking at COVID-19 having set up significant challenges for a number of small business enterprises in the economy.

Having said that, we are proud to share that our business has been extremely resilient during this period and our AUM has grown by almost 50% from the end of Q4 FY20 to the end of August we have now crossed Rs. 550 million. This is a clear sign of the confidence that we have in the business segments and the products that we fund and the new strategies that we have adopted to evolve and sustain ourselves during this challenging period.

Let me give you some insight on some of the key initiatives that have been taken during this time. First and foremost is the continued support to the MSME sector which has been our traditional bread and butter. We have developed a deeper understanding expertise in our traditional space by focusing on customers who fall under what is typically known as the essential commodity sector which is your retail cash 'n' carry customers who own pharmacies, Kirana and general stores and so on.

Using our entrepreneurial lineage we have gone ahead and tied up partnerships with key collaborators including the Maharashtra State Chemists & Druggists Association for instance to penetrate deeper in to this path way. We started with a pilot project of covering about 600 chemists in Navi Mumbai during the peak of the lockdown and have now basis the success of the initial pilot expanded to cover 8,000 chemists across the Navi Mumbai, Thane and Mumbai city.

Unlike a lot of our peers we did not take a blanket decision to not fund customers who may have availed the moratorium 1 and/or moratorium 2. We truly believe in offering structured solutions to our clients and evaluate each case on its merit, moratorium or not to try and fund every deserving customer. We have now resumed servicing MSME customers across all the locations we operate.

Another big step that was taken during the COVID lockdown period was to boost the technology platform and the interventions that were necessary to make sure that we did not have any blockage in business. Given the challenges phased in conducting credit due diligence and executing documentation during the lockdown the company fast tracked a number of tech initiatives during this period to ensure zero disruption to its business.

I will elaborate on some of these now:

The first was video KYC and personal discussion modules from Karza. This has now been fully integrated into our B2C lending platform as backend which allows us to initiate both Aadhaar based KYC verifications and also complete the entire customer credit due diligence at his shop using video technology only.

For documentation execution we have gone ahead and implemented a platform called Legality which allows customers to execute the entire borrower documentation set using a simple e-sign DSA or Aadhaar based sign. EMI collections have also been digitized. We have now migrated from obtaining physical NACH forms to digitally accepting the same using the Digio Platform prior to loan disbursement. And lastly, Dhanvarsha has also now developed its own platform API which allows us to connect seamlessly to multiple partner platforms by allowing them to push cases directly into our loan origination system and thereby allowing us to gain scale.

As all of these measures indicate we are trying to ensure the well being and safety of all of our team members at this COVID times by minimizing time and interfere and at the same time ensuring that we increase our efficiencies substantially. I would now like to talk a little bit about the diversification of our sourcing model. Traditionally the company has always had a typical traditional sourcing model for its MSME business working today with over 250 large corporate and small DSAs along with local connectors in all the locations where we operate.

While this model is suitable for building up fast volume, it is not the most cost effective. In a bid to diversify and de-risk our sourcing model we have now started entering into various FLDG and guaranteed sourcing partnerships with multiple small NBFCs and Fintech companies. Some key points to note here include most partners operate in particular products and markets giving them a specific niche.

For example, we have tied up with an MSME business loan funder in Delhi, a secured business loans provider in Jaipur thereby giving us a pan India reach in particular product categories specialized by location and local expertise. The ticket sizes are fairly granular. These are typically sub Rs. 10 lakhs keeping in mind the strategy of the company to further granulize its portfolio.

Each partner that we tie up with has the potential to go up to about Rs. 40 million to Rs. 50 million of business per month thereby allowing us to have clear visibility for generating a Rs. 500 million plus kind of monthly run rate by the end of the next two quarters. Sourcing and file curation in these cases is typically done by the partner thereby reducing our Opex considerably and adding to our bottomline. We also have guaranteed IRRs in some form funded guarantee and downside protection in each partnership unlike a core DSA model where the partner has typically no skin in the game.

And last but not the least, I would also like to spend some minutes updating everyone on the company's collection strategy. The company has always believed that collections is one of the core pillars of our business and hence we have invested in building this entire function in-house. Our collections team today is completely in-house as I mentioned we do not outsource this in any shape of form.

It comprises a mix bag of lawyers, feet on street collectors and telecallers. The company has empanelled with multiple lawyers and arbitrators for legal recoveries. We follow a unique blended model where we start working on delinquent customers right from the very first time that their EMI bounces and use a measured and mixed strategy of telecalling followed by feet on street collections and finally the legal tools available at our disposal to recover monies.

A number of our historic NPAs especially on the slightly larger ticket sized secured loans have been recovered successfully over the last three quarters with sustained collections pressure coupled with negotiated property sale transactions with these customers. We provide all possible support to customers genuinely affected by COVID-19 and at the same time ensure that post withdrawal of the moratorium which actually happened at the end of August, we will start pushing hard to restore our collections efficiency to normal levels.

To close, we are pleased to share that on a month-on-month basis, the collections for September are already almost double that of August and a significant chunk of balance monies are expected to come in by the end of the current month.

With this, we would like to thank all of you very much and happy to take any questions that you all have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Nandwani from Centrum Broking. Please go ahead.

Rahul Nandwani: Hi sir, so in terms of your loan products, where do you see the most growth coming from, in terms of LAP, business loan, personal loans? And where do you see the most pain in terms of asset quality for the next three to six months?

Karan Desai: Rahul, thank you for your question. I think going forward we have diversified our product portfolio from the core traditional MSME segment that we operated in which included a basket of LAP, business loans, unsecured, and loans secured by the hypothecation of stock. We have now also moved into the gold loan segment, education loans, and medical/healthcare loans.

Within the broader MSME bucket we feel that the exposure that we are taking which are typically in retail, cash 'n' carry, be it either secured loans against mortgage of property or the unsecured small ticket business loans for working capital, our internal view is that this will still be a strong category going forward.

The unsecured segment will actually now grow faster than the secured segment for the simple reason that what we have seen in the last two quarters is that property prices have reduced substantially. As a result of which the earlier model of taking balance transfers from other NBFCs which had taken exposure to good customers, is not in vogue any longer because the loan to value ratios do not stack up any more.

So within the MSME bucket, we are of the strong view that the higher yielding unsecured business loans, which is actually a very good contributor to our bottom line and one of the best sub-segments of our portfolio will grow fast.

And apart from that, we will place a lot more emphasis on increasing our AUM in gold loans and education as well, which we believe will be strong categories. LAP will grow but at a more steady phase, given the reduction in property values in whichever market you may want to look at today.

Rahul Nandwani: And in personal loans, on a risk-adjusted basis it makes sense to grow at a faster pace?

Rohanjeet Juneja: The one thing that we would like to definitely emphasize is that a good part of the personal loans also now are guaranteed by the FLDG. So a lot of these loans that we are growing in now on the personal loan and business loan segment are with a form of guarantee that we have from a partner and that is what we expect to continue with.

Rahul Nandwani: And in terms of moratorium, correct me if I am wrong, you said out of the 20% half of the customers have paid their September installments, right?

Rohanjeet Juneja: Yes, that is right. So of the 23%, more than half have paid. About 55% have.

Moderator: Thank you. The next question is from the line of Vishal Mehta from Axis Capital. Please go ahead.

Vishal Mehta: Just wanted to understand, as I see your presentation on slide #8, you all have given a proforma of your business model. Can you just break this down further on your targeted FY22, some guidance, Rohan you gave which I think I missed it in totality?

So can you just give how the entire AUM would look based on the proforma which you have given? And what kind of cost of funds you think can further be lowered with anticipated capital that coming in, in the next couple of months I believe?

Rohanjeet Juneja: Sure, the way we look at this business is, almost 80% of the overall book by fiscal '22 will be secured, either by collateral or by guarantee. 20% will be unsecured business. That will be very,

very opportunistic. In terms of our cost of funds and where we want to be, obviously at this point of time we are at roughly 12%.

The endeavor is now that with almost about a Rs. 160 crores of equity capital, with a debt to equity ratio of about 0.2x, we are hoping that over the next two years our cost of capital should come to 10%, if not lower.

Vishal Mehta: Okay, and just one more question. I think Karan mentioned or probably you mentioned that the current form of origination is not the best form of origination. And I believe you all are tying up with other Fintech companies as well. So how would that, can you just give some example what kind of tie ups would those be and how that model will exactly work?

Karan Desai: Sure, for instance on the education loans side, we have tied up with an NBFC where we do education loans along with them. There are different models here. There is a mix of structures which are guaranteed and there are a mix of structures where people take co-participation in the loans with us.

In all of these cases, whether it is for education loans, unsecured business loans, loans against property, these are typically either NBFCs themselves, where the pools of capital available today might be limited to a certain extent. So rather than put that entire money in a fewer number of accounts, they would prefer funding a much larger universe along with us taking smaller exposures themselves.

Which works well for us because when you take a typical DSA, the only thing they will do is source the customer for you, charge you a fee upfront for it, and they are absolutely no skin in the game. Six months down the road the customer becomes delinquent.

So as of right now, we already have almost six such transactions signed up under various stages of execution and going live with a pipeline of about seven or eight more. So we are segregating these by product, by location, by the kind of risk-adjusted returns that we will get in each partnership.

And we internally have a very strong view that this model will be the model that we will take the company forward on. Of course, continuing the bread and butter business, but being a lot more selective over there, keeping our pricing under control.

Rohanjeet Juneja: Vishal, one more point also will be that the AUM will be a mix of On-balance sheet and Off-balance sheet lending. The off-balance sheet will be the book that we grow for other large lenders on which we own a spread.

Vishal Mehta: Fair enough, but on regarding the on-balance sheet part, would it be safe to assume that this model of origination would be like 30% of your overall book couple of years down the line, or probably March '22 ending?

Rohanjeet Juneja: Yes, so it will be 40%:30%:30%.

Vishal Mehta: If you can just elaborate on that ratio?

Rohanjeet Juneja: The 40% is the direct sourcing that we do. The 30% is co-origination and 30% is through co-lending and FLDG.

Karan Desai: By the end of March our technology platform will kick in, in full force as well. So we have just on-boarded somebody very senior on the technology side. We are building that entire infrastructure in-house now for Dhanvarsha 2.0 what Rohan mentioned.

So apart from just a traditional sourcing, which is a largely offline model, to these partnerships that we are doing with various partners, to Dhanvarsha's own proprietary risk engine and platform is generating loans for us both on the personal loans as well as business loans side. All of this will come in next three quarters or so.

So, as a diversified strategy, we feel it is fairly risk-mitigated and protects us from the downside of being overly reliant on FOS or on a DSA-oriented business.

Vishal Mehta: Okay, and not as a guidance statement, I believe you all are investing in technology and these tie ups which you are doing, if we could further, if you want to draw a picture further away from FY '22, what kind of a larger AUM book, you know I am sure it could be some internal brainstorming you all would have done based on which you all are doing such investment, what could be that number like?

Rohanjeet Juneja: So we are guiding for in calendar year end 2022 to be at a Rs. 5,000 crores AUM which will be a combination of on balance sheet and off-balance sheet loans that are originated for other partners. Obviously that is our endeavor only by 2022. By 2025, we hope to be much larger than that. We feel we have an open canvas where a lot of other players are not able to lend in the market.

This is the opportunity that we had waited for and we had calibrated growth a year prior to this. We feel that anything in this market is possible by fiscal 2025 and a number much larger than Rs. 15,000 crores AUM is certainly possible between on and off balance sheet lending once we have built out the technology platform to what we want it to be.

Moderator: Thank you. The next question is from the line of Bharat Jain, a shareholder. Please go ahead.

Bharat Jain: I have just one question. I know it is evolving situation, but do you have any EPS guidance for FY '21 or '22?

Rohanjeet Juneja: We would not like to give any EPS guidance right now. What we have guided for is a 5% ROA threshold that we underwrite business for. So you can be rest assured that that number is what we will adhere to. It will be a function of what our AUM will be in '21 and '22, but as we are guided to that in '22, we hope to be close to Rs. 5,000 crores AUM between on and off-balance sheet loans. So you can reverse work into a 5% ROA.

Moderator: Thank you. The next question is from the line of Amit Kapoor from IDFC Securities. Please go ahead.

Amit Kapoor: I just wanted to check that, currently you guys are not at all levered. So is there a leverage number that you have in mind that you will look at before you raise any further capital? Or you will see how it progresses as you go along? That is my first question.

Rohanjeet Juneja: Okay, our leverage post that equity capital infusion will be 0.2x. We have it incorporated in our Articles of Incorporation that anything above 3x, we will take it to the board for a vote, which includes the vote of the independent directors. Anything above 4x would be unanimous decision of the board. So we will, at this point in time try to go to about 3x.

Amit Kapoor: Thanks a lot for that. Can you just elaborate on this 5% ROA target that you have. How do you plan to achieve that? And if you can throw some more light on these partnerships that you are doing for loan origination as to how it will flow?

And in some cases you said that you guys have almost 100%, the default will be on the co-originator, up to the extent of 100%. Can you just throw some light on how those structures are and how it will work?

Rohanjeet Juneja: So on the ROA guidance, it is a mix of interest income, and obviously we have had very strong non-interest income the last one year because we had calibrated on balance sheet lending. But the pipeline of ours was very strong. So we were able to generate non-interest income through syndicating loans.

Going forward now, interest income will become a bigger and bigger part as our disbursement growth has picked up substantially. So the combination of ROA will have almost 70% coming from interest income and about 30% coming from non-interest income. On the sourcing, I will let Karan answer the question.

Karan Desai: Yes, on the sourcing piece, like I mentioned earlier as well, every structure is slightly different, but to give you a typical example, if you were to tie up with an NBFC, say to do unsecured business loans, in most cases today we are working on a 90%-10% kind of disbursement model where 90% of the loan exposure is taken in our balance sheet, 10% is taken by the partner.

In each case, typically we have a funded guarantee which could be anywhere in the range of 5% to 10% of the entire exposure that we get into. And apart from that, the operational mechanics you know, who is doing the sourcing, who is doing the underwriting, how much OPEX is getting invested from our side. Final disbursement triggers will always lie with us because the lion share of the funding is happening from our balance sheet. So in each case, typically we have a fixed return that we agree with our partners basis the risk being taken by each party.

The OPEX, at least as far as sourcing is concerned, largely lies with the partner. Underwriting triggers still rest with us. And basis that a certain guarantee is agreed on, which is typically a funded guarantee. So it works well for both partners because the partners can stretch the capital that they have across a much larger number of loan accounts. They have pretty much a committed and dedicated financing partner along with them in their journey.

We understand the segments that we fund very well with our partners. So typically there is a very low dropout rate from approval to rejection. And from our perspective it gives us a much stronger edge in terms of how we source, rather than take it from a typical DFA. So in most cases the final return we are making are completely risk-insulated. So from our perspective that is what is going to be a very strong contributor to the ROA guidance that Rohan mentioned.

Rohanjeet Juneja: And Amit, as we mentioned in the past as well, every business partnership that we underwrite, and every collaboration we get into, we have to make a certain IRR. That threshold for us has to be met. So while we do like growth, the thing is that it has to be profitable AUM growth that meets our IRR threshold.

Moderator: Thank you. The next question is from the line of Yogesh Chandan from Balaji Capital. Please go ahead.

Yogesh Chandan: So now since you are getting these funds and I believe you have aggressive growth plans for the next couple of years, I would like to understand from your perspective, what are the kinds of risks that you foresee?

Rohanjeet Juneja: So one risk clearly that we foresee is, God-forbid there is a second lockdown, right? So a bit, what actually helped us a lot in lockdown 1 is that we only started growing our loan book again at a good pace from January onwards. So COVID was not that bad for us. So the risk we foresee going forward would be, what if there is a lockdown 2. That would obviously not have a good impact on anyone's portfolio. That is a big risk.

The second big risk is if property prices continue to be very sluggish over the next two to three years, hopefully that will be spur pent up demand, but if that does not spur pent up demand then that is certainly a risk. Though with home loan rates coming down to where they are, our view in house is, that will spur pent up demand.

The other risk also you see is on the unsecured business loans side. If the situation becomes bad again, and let me caveat it, the situation has actually become much better on the ground from June onwards, while it is still not back to 100%, but from June onwards once businesses started re-opening, we started seeing borrowers starting to repay their EMIs again.

So if there is an extended slow down on those businesses then clearly repayment of those EMIs will be difficult. But at the same time, where there is chaos, there is opportunity. So just like education has come out to be a sector, technology has come out to be a sector, many other sectors that people did not envision would do well, have done well in this environment.

We feel we are growing in a manner where we are diversifying our risks. So today as well we have 22 different sub-sectors that we lend to. We always want to make sure that no one sector is particularly large that will come and hit us and cause a bleed on our net worth.

Karan Desai: I will just add two more points to that. So one risk obviously is that the liability-side challenge. So while we work very hard to be able to raise money from quality institutions like HDFC Limited and Bank of India, given the environment today, if the fund raising market becomes slightly more challenging, then that of course is a latent risk.

And apart from that, while we are building a tech platform, tech upgrades and redundancy is such a strong factor that needs to be constantly considered, we need to make sure that we are on top of our game. We have taken a strategic call to take this entire project in house as opposed to working with different tech vendors and partners for different parts of our business like we do today, you know somebody is for rural and somebody for the loan management system. So, all of this will be done in house by us going forward.

Yogesh Chandan: What is your current cost of capital?

Rohanjeet Juneja: 12%.

Yogesh Chandan: And you foresee it coming down to 10%, right? That is what you said?

Rohanjeet Juneja: We are hopeful it comes down to 10%, if not lower than that over the next two years.

Moderator: The next question is from the line of Ravindra Biyani from Magma Housing. Please go ahead.

Ravindra Biyani: I have got two questions for the management. (A) What do we intend to do to enhance our clients and customer base? (B) Do we intend to keep any brand ambassador for our branding, which is very important these days, watching all the companies having a brand ambassador, for like Byju's, they kept Shahrukh Khan and they became a $10 million company. Do we have any plans of such nature?

Karan Desai: May be I will take the second question first. As of now today even if you see our website, our brand ambassadors or what we call Dhanvarsha's heroes are typically our customers. So all of the videos that we have done, kind of promoting ourselves or talking about our business are largely centered around our customers itself.

So for now, our heroes or ambassadors are typically the people that we have funded. And this is part of our endeavor to build a company that creates a very strong social capital. Apart from that, talking on the sourcing side to expand the business, like we have been saying, the idea is to work with different partners who work and fund along with us having three things.

One is of course capital to have skin in the game, two is a deep sector or location expertise basis where they actually operate out of, and third is the vision to do the business for a long term sustained model, rather than do it as a one off.

So while we operate in seven in locations today, on the education side, for example with Eduvanz, we have funded, forget in cities where we do not have our branch, we have funded in states where we have no presence basis the model and the comfort we have working with them.

So this is going to be the largest driver of our expansion. Gold loans we will be building in-house, even slowly and surely we are rolling out micro branches network to gain further traction in that business as well.

Rohanjeet Juneja: And just to add to that as well, we are a fairly cost conscious company. So for us, what matters the most is getting business done in a profitable manner right now. I do not think we would be wanting to spend money on a brand ambassador. For us, what matters the most is going out, reaching out to our customers, doing profitable business, and adding to the bottom line of the company.

Moderator: Thank you. The next question is from the line of Ankit Ladhani from UBS. Please go ahead.

Ankit Ladhani: Sorry for, I may be repeating, because I joined the call little late. Can you please highlight some trends that you see in the overdue book that you know, over the past six months, especially on the MSME front?

Rohanjeet Juneja: Sure, so in the overdue book, obviously for the first three months of the moratorium, you did not really see a trend, right? A good amount of the borrowers, at one point in time almost 42% or 43% of our book went into moratorium. But what we do see in our book now in the last two months also, and this is pretty much similar to historical trend is bucket x, which is 0 days to 30 days we usually end up collecting almost 90%.

A lot of our borrowers come from a segment that they have to be reminded from time to time that their EMIs are due. Or they need to go and deposit money into their bank accounts, for instance. So, we would not say it has come back to pre-COVID levels.

But clearly it is encouraging that in the month of September we recovered more than 50% of the EMIs that were due for loans that were in moratorium. I think the next two or three months would give a much clearer picture for the trend. It is hard to pinpoint a trend right now, given that is only been 15 days since the moratorium has been lifted.

Karan Desai: And one more good thing now is now is, even in the MSME space customers are lot more aware about their need to try as hard as possible to maintain their credit scores and not have overdues. Because all of these businesses are liquidity starved right now. So unless they start servicing their old loans and maintaining their credit history, it would be extremely difficult for them to raise any new funding lines.

So keeping that in mind, we have seen a great up spurt even in the September opening collections. So maybe you missed that part, but our September opening collections were almost double that of our July and August, on a monthly basis. So, people have already started slowly regularizing their accounts.

So on a monthly basis, for September opening we have collected almost double what we did in August. So customers now acknowledge and understand their need to service their loans and make sure that their credit scores do not get damaged, because that is their only chance of raising further capital to fund their businesses, which will take time to organically generate cash flows for their future growth. So we are optimistic that over the next two months, the quality of collections will improve substantially.

Ankit Ladhani: And you know, anything further that you see happening on the MSME customers, like how are their business working, say in the past two to three months? Any discussions that you had over there? How is the pickup in business, say in June as such?

Karan Desai: We will break this into two parts. One is cities and states which have been less affected by COVID. So in those markets we have seen even small manufacturing businesses, fabrication businesses etcetera slowly come back to life. But in states like Maharashtra for example, we are trying to focus all of our efforts only on funding the retail cash 'n' carry segment, which is your convenience, general stores, etcetera, where we have a clear visibility of cash flows, not just pre-COVID, but through COVID as well.

So at least we have some visibility that even if this situation worsens, their businesses will not be incrementally damaged from where they are today. So while we are funding MSME, while we are even considering funding customers who may have taken moratorium and one and/or two, we have been extremely cautious. And depending on the location where we are looking at the file, we take a call on the sectors that the customer operates in.

So it is going to be soft for the next couple of quarters, but the businesses are now slowly showing sign of life. Even as the moratorium have now finally finished, things are slowly unlocking everywhere. We think things will slowly start to get better over the next 60 days or so.

Vishal Mehta: Vishal here. So there is another question which has been in everybody's mind today is, in terms of, even it can be on your existing book or on your incremental sourcing, what percentage of the recovery is coming from basically owner's equity and what is coming from re-financing, and what is coming from basically like real business turnover, etcetera, for him? If it is any sense you can give us?

Rohanjeet Juneja: So balance transfers the way we look at it, or re-financing from other lenders has gone down substantially. And we do not expect that to pick up any time soon. In terms of people coming out and taking debt to repay other debt, I do not think too much of that is happening. Right now people are, most of the repayments that are happening are happening from existing businesses.

Karan Desai: So the old BT market is going to be fairly stagnant. At one point in time, BT was the way to go. There would be very few end to NTC customers or new-to-credit customers with a first time property. But in LAP this is the segment that we are focusing on now.

Or existing customers who may have a mortgage loan, but have serviced it over the last five, six years and the run down is substantial so that even with the softer property prices, it fits in to our LTV calculations and there is some incentive for the customer to actually take the loan. So we are adding quite a few NTC customers across all the product categories that we operate in. Not just LAP, but even on the personal loan and business loan side.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Ms. Pallavi Desai from Wilson Financial Services for closing comments.

Pallavi Desai: On behalf of Wilson Financial Services, I thank you all for joining us on the call today. The earnings presentation and the transcript of today's call will be uploaded in due course on the Dhanvarsha's website www.dfltd.in. You will find these documents in the investor relations tab. I thank you once again.

Moderator: Thank you. On behalf of Wilson Financial Services Private Limited and Dhanvarsha Finvest Limited, we conclude today's conference. Thank you all for joining in and you may now disconnect your lines.