"U Gro Capital Limited Q1 FY21 Earnings Conference Call Hosted by SPA Securities Limited"

August 13, 2020

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MODERATOR:	**MR. SHARAD AVASTHI – SPA SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the U Gro Capital Limited Q1 FY21 earnings conference call hosted by SPA Securities 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sharad Avasthi from SPA Securities Limited. Thank you and over to you, sir.

Sharad Avasthi: Good morning. On behalf of SPA Securities, I welcome you all to the Q1 FY21 earnings con-call of Ugro Capital. I also take this opportunity to welcome the management team from Ugro Capital. Today, we have with us Mr. Shachindra Nath – MD & Chairman, Mr. Abhijit Ghosh – CEO & Whole-time Director, Mr. Kalpesh Ojha – CFO, and Mr. Vivek Seshadri – Head of Strategy.

We would start the con-call with brief opening remarks from the management followed by an interactive Q&A session. Before we start, I would like to add that some of the statements that are made in today's discussion will be forward-looking in nature. Now, I would request Mr. Nath to make the opening remarks.

Shachindra Nath: Good morning everyone and many thanks for joining us for our Q1 FY21 earnings call. Like most other firms, and certainly all other lenders, the central story for us this quarter has been the coronavirus and the associated lockdowns. Across the NBFC space, all lenders have broadly had a dual focus evaluating and working to minimize portfolio stress while exploring the full extent of the liability available to them to ensure a comfortable liquidity position at these trying times. I firmly believe that we have demonstrated outperformance to the market on both counts, and we find ourselves in a much more comfortable position than almost any other player in the market, with an opportunity to rapidly grow in the coming months. Given the major macroeconomic challenges we have successfully dealt within our nascent journey thus far, I think we have demonstrated ourselves to be an extremely nimble organization – which is exactly what is required during this time.

Before getting into the numbers for this quarter, I want to start by talking about the pandemic itself and its economic ramifications. While the consistent lockdowns have certainly had a negative effect in the short term, we have seen the resolute spirit of our nation represented beautifully by small businesses across the country. Despite the operational disruptions and challenging financial situations faced by most SMEs, they remain a vital cog in the Indian economy and have critically not folded under the pressure. The government's strategy of channeling liquidity to small businesses primarily via lenders has meant that fundamentally strong business will be able to weather this storm and thrive after.

Our operational response to the pandemic has been to continue to prioritize the health and wellbeing of our employees above all while greatly expediating our digitization process to ensure that we are now capable of working at 100% operational efficiency despite all employees working from home.

The major concern regarding a fully digitized underwriting process has always been that it would come with a compromise on the traditional checks and balances that we value highly. Quarter-1 has seen us take multiple strong steps in the right direction on this front, particularly with the introduction of personal discussions by video and digital submission of documents to maintain the sanctity of our conservative underwriting process, while fully eliminating any requirement for physical interaction between the customers and our credit managers. In addition, we have integrated an advanced rule engine with machine learning architecture into our banking segmentation process.

On the distribution side, we have further expanded our GRO partner network to 393 which is an 11% increase on quarter-4 figures. As of July 2020, full lending operations have re-commenced at all U GRO locations. We have also accelerated the ramp-up of our partnership-driven channel at this time. As an organization that prides itself on being nimble, our emphasis is on disbursing via our Sanjeevani program for provider of essential goods and services and also the emergency credit line guarantee scheme.

With regard to disbursal numbers, all lenders were severely hampered between April to June. Due to the pandemic, we disbursed approximately 10 crores a month over these 3 months as compared to around 120 crores per month immediately before the lockdown. However, we have adapted superbly to these limitations, and in July 2020 we disbursed over 93 crores, which sees us disbursing at around 80% of our pre-COVID levels. We fully expect to continue our positive disbursal trajectory and to re-achieve and exceed our pre-COVID levels in the coming months. We have reached a total of 1397 crores of disbursal in our business to date and our AUM at the end of Q1 was 847 crores with a blended yield of 14.1%. Our AUM is spread across 7343 live customers for a highly granular average ticket size of 11.5 lakhs. Our portfolio remains well diversified by sector and geography and the secured portion of our book is just under 70%. Our portfolio has a GNPA of 1.02% and NNPA of 0.57% both of which are reasonable figures as our book has started showing some vintage.

As I mentioned earlier, estimation of portfolio stress is critical at this juncture. We have taken strong steps to make sure that our portfolio quality is maintained as much as possible. Since the lockdown has started, we have been in regular contact with our customers to monitor any stress effect on our portfolio. To this end, we have conducted 3 highly comprehensive customer sentiment surveys as leading indicators of our portfolio stress. We have also led a deep-dive study alongside CRISIL of macroeconomic impact at the sector and subsector levels to fully assess our risk exposure. Based on these studies and our ongoing internal risk evaluation, we have increased our provisioning to 4.5 crores of COVID-19 specific provisions and 11.6 crores

of overall provisioning. Given we had already taken a large COVID-19 provision in Q4 FY20, our provisioning expense in Q1 FY21 was 1.15 crores.

The liability side is where we have made most progress in Q1 FY21. Since IL&FS, there has largely been a liquidity crunch in the NBFC space with inadequate capital access for all but a few lenders. However, government-driven schemes as the PCG scheme and TLTRO 2.0 have really served to alleviate this pressure. For well-run NBFCs, this has been a huge boon as it has allowed us to secure our liquidity position for the foreseeable future while borrowing costs have come down significantly solidifying margins across the industry. As at the end of Q1, we had a total of 387 crores of sanctioned liabilities, over 100 crores of which we have not yet drawn down. We have added multiple public sector banks to our liability book this quarter. With sanctions received under both PCG and TLTRO schemes, July 2020 also saw us issue our first commercial paper with a face value of Rs. 10 crores. We maintain an extremely healthy liquidity position at present with over 300 crores of immediate liquidity on the balance sheet not including the sanctioned liabilities that we have not yet drawn down. This has meant that we have a CRAR of 99.42%, far higher than industry average. Our liability pipeline is also very strong for the foreseeable future with over 200 crores of incremental liability.

Our financial performance continues to be strong given the circumstances, underpinned by a set of cost optimization measures we have taken over the last 2 quarters. We have declared a profit after tax of 3.73 crores with a total income of 30.79 crores. Our OPEX-light business model has allowed for us to maintain profitability even in these difficult times. Our net worth on June 30th, 2020 stood at 926.1 crores with a book value per share being roughly around Rs. 131.

In closing, coronavirus has given us and indeed the nation a monumental challenge. However, our nation has great spirit and no group exemplifies this more than small businesses. I have full confidence in the age-old adage that this too shall pass, and we shall forge onwards from strength to strength after this crisis is finished. The government's strong support for MSMEs through the channeling of liquidity via lenders is certain to pay dividends, and fundamentally sound businesses will only emerge from this crisis stronger for having survived it.

With our strong liquidity position and greatly strengthened liability book, I firmly believe that you can expect great things from U GRO in the coming months as we expand our aspiration to solve the unsolved. Thank you all and over to the SPA team.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Jenny Shah, an individual investor. Please go ahead.

Jenny Shah: Sir, I had one question. How has been the collection efficiency for the book which has come out of moratorium?

Shachindra Nath: The collection efficiency for non-moratorium book is roughly around 98%.

Jenny Shah: Sir, one more followup I had. How do you look at the revival of sectors such as hospitality and education which have been affected most during the COVID times?

Shachindra Nath: As you know that we are a sector and subsector specialized small business lending platform and we have this great advantage of looking at the macro data and also as I have alluded to in my opening remarks that we have a bottom-up customer engagement survey and we have taken a view by every sector and subsector for the next 24 months and we have tested it on the basis of whether businesses are operational or nonoperational which is the ground up approach. Regarding the 2 subsectors which you talked about; on hospitality, which is again subdivided into multiple underlying customer types – banquet hall, fine dining restaurants, so and so forth. Within the hospitality, broadly I think up till FY22, we foresee a severe stress and what we call is they will continue to be, from an operational performance perspective, in red. But within that, there are white spaces which are the fast food home delivery kind of businesses.

Education actually is very contrary. Most of the K-12 schools which we operate in are non-operational at this point of time, but their cash flow is not that severely impacted because as you would differentiate, hospitality is a discretionary expenditure and education to some extent is a nondiscretionary spend, it is compulsion. So, while their revenues have got reduced in terms of the allied services most of the K-12 schools used to make, but it has not got that severely impacted, but both would be operational at a full flow at much longer delayed tenure.

Jenny Shah: Just one last question I had. Are you looking at expanding the focus sectors as many of the sectors like auto components and all are not performing as well for a longer period of time?

Shachindra Nath: As you know that we have made this disclosed – I think we have discussed this around 4 quarters back – auto components we have stopped around 4 quarters back itself, much before the pandemic and that was more of a call which we took on the basis of how the economy was performing. Hospitality also we are very slow at this point of time. But on a long-term basis, we are quite focused on our sectors. We do healthcare, but within the broader ecosystem of healthcare, pharmaceuticals we were not doing. We have added a few components of pharma and we would expand into the pharma as a sector for us for now.

Moderator: The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: Sir, I had a question with regard to the sectors that we cater to, and since we have done 3 customer surveys also, what has been some of the similar or key takeaways from your interaction with your customers in sectors like light engineering, electrical equipment, even as you discussed about hospitality also? What would be some of the similar takeaways or the key takeaways from your customer survey or your discussion with your customers?

Shachindra Nath: I will give you a broad answer. I think, between manufacturing to services, we have seen a revival of the manufacturing sector to be far superior than the Services sector. That's point number one. Within the manufacturing, to give you an example, we are seeing the electrical equipment manufacturing, chemical, and few others to come back to now almost 70% normalcy, but the problem is what we call a trend which is very difficult to predict. For example, in manufacturing unit and what we service is the allied ecosystem, the MSMEs who are either supplying to a manufacturer or the distribution channel which is buying from those manufacturers, but some of those factories some time which was a green zone all of a sudden becomes a red zone and the production goes down. Those are the continuing challenges but otherwise the manufacturing sector is reviving better than the services sector.

Shreepal Doshi: Sir, if you talk from the perspective of utilization levels or production levels, what was it in say May-June verses in July if some data point sort of a scenario there?

Shachindra Nath: You have to appreciate that what you are looking at utilization level is a mid to large manufacturing sector. We service customers which are either micro SME or SME which are services and manufacturing. But within those sectors, wherever we have seen that the lockdown is a little lesser and if they are manufacturing and if they are not suffering from the problem of the labor, those have started reviving back quickly.

Vivek Seshadri: We have basically constant communication with almost all of our customers now. We have since the lockdown started spoken to them 3 times and each one obviously has its own set of questions that we are asking. What we understand is that at least 70% to 75% of the customers except maybe in a couple of sectors like I think a previous question alluded to, education and hospitality have started operations. In fact, in sectors like food processing, it's almost 80% to 85% of the people are now open. And what we also understand is, in most of the sectors except for the 2 sectors, around 60% to 65% are operating at a 50% odd capacity utilization for our set of customers. And the idea is that as the lockdown eases out in most of these places, the level of operation also increases. I think that's fundamentally the key takeaway from the surveys that we conducted.

Shreepal Doshi: Sir, any trend that we are seeing with respect to our geographical split? We have a decent split in Gujarat, Rajasthan, Maharashtra, and also in Karnataka. Any geography-specific challenges that we are getting to know from our interactions?

Vivek Seshadri: Geographically, 3 places that are seeing a higher moratorium are Mumbai, Pune, and Chennai and these are the places that have been hit by the lockdown the hardest. I think there is a direct correlation between the lockdown and the impact on the customers.

Shreepal Doshi: Sir, one last question. We have started disbursing, not so high but which we have gradually started. In what segments are we looking to do disbursements or expand our loan book?

Shachindra Nath: As we have announced, 1st of July we launched a program called Sanjeevani. This is a unique program which we built basis…. As you know, we are a very highly data driven analytics company, and prior to COVID lockdown, besides our sectors and subsectors, we had a multiple-program approach. We had programs like banking, programs based on GST, programs based on normal income, programs based on multiple other things. As an MSME customer, you could have come with just your 12 months of banking data. Basis that, our system used to analyze your cash flow and we were giving eligibility sanction and then doing the full underwriting process. But largely our underwriting was driven by historical cash flow available to a small business and his ability to pay a future loan. What we realized that that factor of doing underwriting on that basis is severely hampered because now you have a 5-month lag from there, and we worked very hard in using our data analytics technology in underwriting and we combined 2 things for our Sanjeevani program – banking and GST – wherein we now take 12 months of data both of the banking and GST. Our system bifurcates the data between pre-COVID and post-COVID and wherever it sees that there is an uptick, that customer becomes eligible for a loan, and then basis the sector and subsector, our underwriting team does a probability analysis of what cash flow he will go back. Even if we are seeing an uptick in say if you are in hospitality, the normalcy factor or mortality rate applied to your future cash flow would be lesser versus a food processing. And basis that, we are coming up with an eligibility and we started this Sanjeevani program. I think it's a very unique program wherein we have used 3 months of lockdown and utilized all our strength there is a piece of analytics technology, underwriting distribution, and rolled it out and it has been very well received and appreciated in the market.

Moderator: The next question is from the line of Swapnil Sagar, an individual investor. Please go ahead.

Swapnil Sagar: I have a few follow-on questions to the sample survey that you had conducted. What was the size of the survey?

Shachindra Nath: We reached out to almost 95% of our customer base and we did it digitally and then verbal communication. We created a digital platform wherein every customer was touched through that wherein there were a set of questions which were filled by the customers, and basis that, our underwriting and sales team spoke to those customers.

Swapnil Sagar: You have certainly added some liability side recently from PSU banks and all. Can we know how much was the amount in terms of sanctioned liabilities that you have which can be disbursed?

Shachindra Nath: We have already given that in our investor presentation. I think COVID era has been very very strong for us as far as liability franchise is concerned. As you know, pre-COVID, we were largely funded by equity. We were disbursing out of that and we were not in a great rush or need to incrementally raise too much of liability. But during this period of time what we realized that or what we benefited from that one obviously within the large framework of public sector banks, there was a need and there was also a direction or…. Banks were being motivated to provide

more financing to NBFCs and especially the lower-rated NBFCs, but within the universe of A-rated NBFCs, we stood out given our high capital adequacy, very strong GNPA performance, and low legacy and that's why we saw that there is a host of liquidity. As of today, we sit on almost 300+ crores of cash and we think that among the universe of almost 12 public sector banks, by the end of next month, we should have a relationship with seven of them. I think it's a very strong founding for a company of our size.

Swapnil Sagar: One more question. Sir, I have observed there is some off-market transfer by a promoter – Poshika Advisory. Any particular reason?

Shachindra Nath: This has been very well explained in our public market disclosure. The Poshika Advisory Services LLP which is defined as the promoter entity, at the time of acquisition of the erstwhile promoter shares which was Chokhani Securities, Poshika LLP had investment from me and also there were other financial investors at the LLP level. None of them were more than 10% of the LLP total capital. In some of the recent sanctions received from the banks and financial institutions, these banks have put conditions of either a personal guarantee of me as a promoter, but some of them also put restriction of Poshika as an LLP divesting its shares. Because there were external investors at the LLP level, those chose to retire from the LLP and consequently their number of shares were transferred to them so that I without any problem can commit to these banks for non-divestment of shares held by me.

Swapnil Sagar: Thanks for the detailed clarification. The reason for the auditors' change, have we opted for the other Big 4s also – quotations? The evaluation in terms of…. I know it is a board decision. Just wanted to be understanding as to what the reason for change was in auditors? I know that you have mentioned that the fees is the concern for Deloitte. Any particular other people that we have approached or there were multiple people we have approached, and we finally selected….

Shachindra Nath: You will see this trend which is across all the listed companies. I think the large audit firms are under severe pressure in terms of the time involved in completing and conducting their audit because the regulator requirement and pressure of how the audits have been performed over a period of time across all listed companies…. The cost of that is going upwards. To be fair to them, that's why most of them, especially the Big 4s, their cost is going up and they are asking the underlying companies to bear that cost. And obviously, for a company of our size…. As you know, it has already been provided in our articles that the audit firm for our company can either be a Big 4 or a firm which has got an international affiliation to maintain a certain level of standard. This is provided in our article. Given these circumstances, Deloitte's requirement was to increase their fee on the audit significantly and we felt that given the size, construct, and the circumstances of the market, for us it was difficult to accept that. And basis that, on very very good terms – Deloitte is continuing to support us for other advisory thing and services – we decided to accept their resignation and change the auditors and we have taken BDO which is a similar firm. Thanks to the entire evaluation process of our audit committee chairman and the entire board and we selected BDO out of 5 different audit firms. And the reason we did that

because we liked the BDO's financial services team. They are now auditors of banks like HDFC, Ujjivan, so and so forth. So, we felt that we are better in their hands, basically.

Moderator: The next question is from the line of Bhavesh Jain from Yes Bank. Please go ahead.

Bhavesh Jain: Sir, if you can just provide some light on the current percentage of the book which is under the COVID moratorium and also how it has progressed in both the phases of COVID moratorium?

Shachindra Nath: As you know that when COVID started in the month of March, unlike other NBFCs of similar size, most of the NBFCs were suffering from severe impact of liquidity for themselves. When we did our first survey to customers, we realized that most of the customers actually needed some form of a moratorium. In fact, we reached out to RBI asking that we should be allowed to provide moratorium across all customer segments before RBI's first circular on moratorium came. Having realized that need and with no liquidity problem for us, we offered 100% moratorium to our customers in moratorium-1 which was an opt-out scheme. Any customer who didn't wanted moratorium could return to us, and basis that, 20% of our customers opted out of the moratorium in the moratorium-1. In moratorium-2, we said that we will give moratorium only basis re-credit exercise because we didn't want it to be negatively selected by a borrower wherein he is paying other lenders and not paying to us and that's why we asked borrowers to ask for moratorium, and any borrower which asked for moratorium, we took their entire banking and GST and did a re-credit exercise. And basis that, we have offered roughly around 60% – Vivek, correct me if I am wrong – I think around 58% or 60% of our customers are under moratorium in moratorium-2.

Vivek Seshadri: That's right. The first moratorium was closer to 81%, the second one has come down to around 62%.

Shachindra Nath: And non-moratorium, our collection efficiency is almost 100%.

Bhavesh Jain: Any ballpark figure where we are looking at the AUM level by the end of this financial year? Any internal target that we plan to achieve?

Shachindra Nath: We cannot give you a forward projection numbers, but the way to think about it is that we exited our Feb end at a run rate of 120 crores of disbursement. We were on the path of growing from there at that point of time, and when the shutdown and everything happened, we restarted on 1st of July and we ended July at 96 crores of disbursement, which means we still believe that we will take another few months to get back to our February levels, and from there, I think if things start getting to a little bit more normalization, we should surpass our Feb levels within the next few months and that would give you a number of what and where we would end up.

Bhavesh Jain: Regarding the close to 60% of customers which are under our moratorium – I am sure the management and the team would be in touch with most of them – any signs of further stress in

any specific sector or geography, which once this moratorium ends, anything that has come out with this survey or your study?

Shachindra Nath: Let me clarify. There is a general trend or this perception that moratorium means stress. In our thinking, that is not right way to look at it. Customers, where cash flow is getting affected, take moratorium to go through that process of their business getting operational again. When we did stress testing for the purposes of our COVID provisioning, we did it not just for the moratorium customers, but we did it for the entire portfolio. And that exercise was done basis the 100% of customer connect. Second, we did it on the basis of the re-credit exercise which has been done on the customer either for moratorium or for emergency credit lines. And third, the macro sectoral view which we had taken, and basis that we have created what could be the stress. Stress is nothing but delayed payment or delinquency – it is not an absolute loss – because that is a function of the kind of collateral which you hold. Even more than 70% to 75% of our portfolio is secured. Large number of that portfolio is secured by physical collateral of residential or commercial property. We don't see much challenge for us.

Moderator: The next question is from the line of Kislay Upadhyay from Abakkus Asset Management. Please go ahead.

Kislay Upadhyay: Congratulations on strong liability holdup in these times. I wanted to get your thought process behind the disbursals – 22 crores in June and 93 crores in July. What was your thought process behind it? Were we getting limited inquiries, or our Sanjeevani scheme and emergency credit scheme limited us with only these many options? And how do you see it going ahead?

Shachindra Nath: June disbursement was largely nothing but restart of supply chain financing business which we have because in our supply chain business wherein people have taken the moratorium, some of the manufacturing units restarted. So, their previous bills were paid and then we started discounting the fresh bills. June disbursement was largely limited to that. In the month of July, after a hiatus of 4-5 months and the work which we did around Sanjeevani, we started the disbursement on the Sanjeevani program which is both secured and unsecured, which is just assessment of customers basis their banking GST and future projected cash flow defined by the macro analysis and view which we have coupled with deep underwriting at the front end level. So, the July disbursement was a combination of roughly around 40% in Sanjeevani and balance is on our revival of supply chain financing business.

Kislay Upadhyay: So, will it be right to assume that essential services will continue to be a dominant share of our disbursal at least for a few months?

Shachindra Nath: Post July, except a certain few select sectors, our business is open for everything what we used to do it prior to the lockdown. But if you look at within our universe of sector and subsector, by natural selection, most of it continues to be essential services. We don't do discretionary spend, we don't do infra, we don't do road transportation, so and so forth. That's why, I we are now

starting across all segments of the market within our 8 sectors and subsectors except few where we are cautious. For example, dental. Dental is a segment of the market which we think that the restart of dental clinics would happen much later, but it doesn't mean that it would not start. As I said that the matrix in our Sanjeevani program is…. what we have done is, either a mortality rate or a revival rate by defining subsector. So, when we will see the last 12 months of cash flow and the turnover data and divide it pre-COVID and post-COVID, and even if we see a little bit of uptick, the underwriting presumption in the system which an underwriter would put in for a dental clinic would be a 12-month period versus for a food processing which would be 3-month period. By designing that, the eligibility available to the customer for dentist would be far lower and probably negligible verses for food processing would be higher.

Kislay Upadhyay: Also, could you share your thoughts on capital raise that you mentioned, the reason behind it?

Shachindra Nath: I think you should take this like as a listed company; we always keep this enabling resolution for 500 crores, which was approved last year and this is just renewal of that approval. As you know, we are very-very heavily capitalized with 99% capital adequacy. Especially given that now we are getting a good amount of liquidity from the financial institutions to ourselves, our objective is to make sure that we service our existing equity base as quickly as possible, to come out of the build-out period which we have done over the last 2 years – we have been operational only for 1 year – and start servicing the return on equity versus raising more additional capital. With just a caveat to that, we still believe that all our equity investors are our long-term partners and there are certain investors who bring massive amount of strategic value to businesses, whether they can be a multilateral institution, a large DFI, or so and so forth. And we keep receiving those inbound queries and it is our job to explain our business to them, but we are not proactively looking for infusion of equity into our business at any point of time.

Moderator: The next question is from the line of Rajesh Shah, an individual investor. Please go ahead.

Rajesh Shah: Sir, my question was on the co-origination part. Just wanted to understand, have we started disbursals to this channel?

Shachindra Nath: Not yet sir. Co-origination, we continue to hold this position that co-lending for NBFC between NBFC and bank is a long-term solution for liquidity problem. It is very value accretive both for the bank and the NBFC. I think we were at the verge of starting a few programs within the universe of our already signed banks, but because of the COVID pandemic, it has come to a complete halt. But having said that, I think there is some fundamental problem to be resolved, and let me give an explanation and narrate this to you. Within the universe of public sector banks who have signed co-lending arrangements, I think there is a systematic flaw in the arrangement wherein public sector banks given their size, architecture, and governance methodology believe that the co-lending by the NBFCs should be done on the basis of the parameters which they have defined for their existing semi borrowers and customers. You would appreciate that an MSME or an SME comes to an NBFC because for some or other reason bank is unable to lend to that

unit, but if the large lender in a co-lending format again focuses on their own underwriting parameters, then obviously it's a non-starter. We have been at it and we have been making different kind of presentations, so and so forth to both of our signed-up partners which are Bank of Baroda and SBI, and as much as I know, they are also actively looking at revitalizing and rethinking about how they restart the co-lending, but those are board level decisions for these banks. So, that would take some time. Within the universe of our private sector banks, I think that that would start faster as soon as the normalization comes, but simultaneously, we have also started looking co-lending with outside the big banks. As you know, we have signed a co-lending arrangement with Poonawalla Finance which is another NBFC owned by Poonawalla Group. Obviously, they have massive advantage of cost of capital. So, we are doing with them and we are now having a conversation with others. Obviously, as you know that we are sitting on a significant amount of cash on our balance sheet at negative carry, that's why we are also a little soft in terms of pushing very hard on our co-lending.

Rajesh Shah: Thanks for the detailed explanation. Just a couple of follow-ups on that part. How much can the company leverage on the current book and also what kind of LTV are we taking in the current scenario?

Shachindra Nath: How much we can leverage is the function of regulatory capital. Theoretically, we can leverage up to 5 times, but as you know, that's not practical. Post-IL&FS, post Yes Bank crisis, and post COVID pandemic and what we have seen the multiple large NBFCs defaulting into the market, I think financial institutions and lenders would like to see a lower leverage for NBFCs so that they are safe and secure. That's the part 1 of the question.

LTV, there is no one single rule for our different type of programs. We are not driven predominantly by LTV. While that's a comfort and we would like to keep it in the range of not more than 60% to 70%, but we have different programs which analyze cash flow of the customers and we have different collateral types as well. For example, we are now starting machinery loans. We are a financing platform for small businesses for their needs while securing our portfolio through multiple types of collaterals. In our initial 1st year, we have focused on collateral which is either residential property mortgage or a commercial property mortgage, but having now done this for almost 1 year and having serviced almost 7500 customers and the kind of ecosystem which we have built, we are gradually opening and creating programs for other, what we call, productive asset financing as well.

Rajesh Shah: Sir, lastly just wanted to understand, what would be the average approval rate for the files that we have received in the last 2 months or so?

Shachindra Nath: That's a challenge for us. We continue to be very cautious and conservative in our approach of approval rates and file and all that, and that had 2 parameters. One, because we were young, and a new company and we wanted to be very cautious in terms of our selection of our customers, borrowers, and portfolio. And second, the kind of customer segments we chose, and which were

a little competitive than what normally NBFCs do. So, the combination of that, we are at a 25% login to approval rate, but given that the unique program which we have built and given that we are now entering into newer geographies and building different product programs, I think it would gradually improve from where we are.

Moderator: The next question is from the line of Swapnil Sagar, an individual investor. Please go ahead.

Swapnil Sagar: My question has already been asked by Rajesh. Just one follow-up on that. What is the self-sourced book? There is a bifurcation of loan book in terms of self-sourced and overall, in the presentation. Is it our own channel? I thought it is the co-lending partner balances but since you have mentioned that you have not yet started co-lending.

Shachindra Nath: Self-sourced book is that book which is generated through all our physical branch infrastructure and through the intermediary partner which we call Gro partner. That is our self-sourced book, and non self-sourced book is wherein.... We have 2 parts of co-lending. Co-lending for the liabilities side where big banks have signed up with us and then we have co-lending partnerships with other smaller NBFCs, fintech partners, and aggregators who source business and where we do co-lending. Non self-sourced means that there is an underlying small NBFC partner for a particular geography wherein they benefit from our underlying technology – underwriting process – and we depend upon their local origination and sourcing.

Swapnil Sagar: Who would be the partner in terms of smaller NBFCs and all?

Shachindra Nath: We have relationship with now twenty-one, a few of them we are now integrated well and we have started the business. I would not like to give you the names, but that's....

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

Shachindra Nath: Thank you everyone for taking out time and joining our Q1 FY21 investor conference call. If you have any follow-up questions, please feel free to reach out to Vivek Seshadri who is our Head of Strategy and Investor Relations. On behalf of the entire management team, our CEO – Mr. Abhijit Ghosh and CFO – Mr. Kalpesh Mehta, we are thankful for your taking out time and listening to us.

Moderator: On behalf of SPA Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.