Akme Star Housing Finance Ltd.

"Akme Star HFCQ3 FY21 Earnings Conference Call"

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Akme Star Housing Finance Ltd.

CHORUS CALL®

MANAGEMENT: **MR. ASHISH JAIN - MANAGING DIRECTOR, AKME STAR HFC**
MR. A. P. SAXENA - DIRECTOR ON BOARD, AKME STAR HFC
MR. NATESH NARAYANAN - CFO, AKME STAR HFC
MR. KALPESH R DAVE - HEAD CORPORATE & STRATEGY, AKME STAR HFC

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY21 Earnings Conference Call of Akme Star HFC. Today on the call, we have Mr. Ashish Jain, Managing Director of Akme Star HFC; Mr. A. P. Saxena, Director on Board of Akme Star HFC; Mr. Natesh Narayanan, CFO of the company and Mr. Kalpesh Dave who heads the Corporate Planning & Strategy at the company. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions afterthe presentation concludes. Should you need assistance during the call, please signal the operator by pressing '*' and then '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kalpesh Dave. Thank you and over to you, sir.

Kalpesh Dave: Thank you, Rio. Good evening and season's greetings. On behalf of Akme Star HFC, I Kalpesh Dave, Head Corporate Planning & Strategy at Akme Star HFC warmly welcomes all of your for this Q3 earnings call. We also have with us Mr. Natesh Narayanan, our CFO; Mr. A. P. Saxena, our Director and our Managing Director, Mr. Ashish Jain. So before getting into the briefings of the day, allow me to set the flow of the call. I will be sharing the company's transformation from Version 1.0 to Version 2.0 while my colleague Mr. Natesh Narayanan will be sharing the financial highlights of the Q3 with the periods ending December 31st 2020 and our MD will be sharing the vision and the objective behind the transformation process that we have undertaken.

So Version 1.0 of Akme Star HFC was built by two promoter families namely Late Dr. Mohan Lal Nagda and Shri. Nirmal Jain. Version 1.0 has a history of 11 years since start of business operations and approval as a registered housing finance company in September 2009 and the company in this Version 1.0 was based out of Udaipur in the state of Rajasthan. So the word Akme refers to initials of Acharya Kunthu Sagar Maharaj and **2.29(Inaudible)**the spiritual mentor, guru of these two families and thereon these two families built up a loan book of 63 crores over the past 11 years of business operations. Incidentally, in the year 2018, the company lost its founding promoter, Nagdaji and thus Mr. Ashish Jain, his son took over the reins of the company. So the board and the company in the year 2018 directed the promoter family who seek capital as well as expand the business and thus towards this our company received equity capital from Arkfin. Arkfin is a group founded by group of professionals from the fields of housing finance, banking and nonbanking, so with the power of this capital and the experience of professional team mentoring our company, we started witnessing the following transformation in Akme Star HFC. I am listing them as follows:

Our company hired seasoned professionals and expanded to the state of Madhya Pradesh, Gujarat, Maharashtra and Tamil Nadu apart from Rajasthan resulting in 7 branch offices, 10 digital presence, 2 resident offices, thereby having 19 POPs in 5 states. As we see today, we have 63 employees at Akme Star HFC as of December 31st 2020. Majority of these employees have been on-boarded over the last 12 months of this particular journey. Our company expanded AUM from Rs. 63 crores to the AUM of 90 crores during this period of expansion while obviously taking a small pause during the pandemic, the lockdown time. The third, our company changed the technology platform and deployed core lending platform called Jaguar, digital mobility platform for credit appraisal called credibilityand completing the overall cycle, we have also deployed digital collection platform for receivable management. So this helps end-to-end processing from log-in, sanction to disbursement to receivable management being done end to end through technology. The addition of talents, expansion of branches and the strong technology platform aided by mobility created a strategic team and an environment to enable scale of around 25 to 30 crores per month of run rate as we see and the team has also started to build a strong liability management franchise working with the existing liability franchise that we have.

During this period, the team also approached the national housing bank towards refinance and hence availed 14.6 crores of credit line under different refinance schemes. The liability franchise also has got boosted by receipt of 7 crores of credit line from SBI during this period. Our company also appointed Mr. A. P. Saxena, a very strong housing finance domain professional specifically in operation risk and governance who has spent his career with the national housing bank. So with this background of the last 12 months of efforts to build up on the company, which was existing since last 11 years, I share the following decisions that have been taken in the just concluded board meeting and these are as follows:

Our board of directors has approved an interim dividend of 15 paisa per share. Second, our board of directors had consulted upon the change of registered office from current Udaipur to the financial hub Mumbai and this is obviously subject to the shareholders and regulatory approval. The objective of the change of registered office is to ensure getting the right talent to run central office operations, boost our liability efforts and help to stay connected with rating agencies, our business associates, our media partners, prospective investors, shareholders and other stakeholders. The third one being our board of directors has approved the change of name of the company and the same will be put for shareholder's approval in the ensuing EOGM. Upon approval, the management team will work towards creating a brand identity, working to the objective of serving EWS and first-time home buyers which has been our target customer segment in the existing geography as well as the expanded geography.

The fourth important point I wanted to share with the participants over here is that to retain the existing pool of talent as well as encourage addition of new talent to the company to align with company's objective, our board of directors have consented to issue employee stock option scheme. So these are the four important announcements that I wanted to share with the team over here. We as team Akme Star HFC, the family and the board are excited and passionate to embark on this journey and look forward to all of your implicit as well as explicit support. With this, having shared, now I request our CFO Mr. Natesh Narayanan to speak on the highlights of our Q3 performance. Thank you and over to you, Natesh.

Natesh Narayanan: Thank you, Kalpesh. Good evening to all of you, very happy and prosperous 2021 may bring a lot of luck and welfare to all of us. I take this opportunity to put before you the financial performance which was placed before the just concluded board and these are as follows:

For the 9 months period ended on 31st December 2020, our incremental disbursement stood at 19.38 crores vis-à-vis 18.09 crores during the same corresponding 9-month period last year. Repayments for this period included and including prepayments were to the tune of roughly about 7 crores, 6.88 crores to be precise. All of the disbursements were made to retail borrowers in the EWS first time home buying segment. Loan book of the company grew from 77.1 crores as of 31st March 2020 to 89.6 crores as of 31st December 2020. This growth is in spite of the fact that the disbursements were on holdfor the lockdown period during the pandemic. The annualized yield on the loans and advances stands at 16.5% while the blended cost of borrowings is around 10.6, giving us a spread of roughly about 6% points. Our company has following a nonbanking relationship with SBI, BOB AU small finance bank, Mas Financial Services and Avanse. During the period, the company has added the National Housing Bank who has extended credit lines to the extent of 14.5 crores at a sub 7% range, the benefit of which will be reflected in the next full financial year.

The expansion of the company to newer geographies, setting up of infrastructure and investing quality manpower results in an operating expense of roughly 3.68 crores of which the employee expenses stand at 2.58 crores and other operating expense stand at 1.1 crores. The gross NPA number for the 9-month period ending 31st December stands at 2.5% and the net NPA number is at 2.04%. The impairment loss allowance stands at 1.63 crores for the period ending December 2020. We have provided for 61 lakhs towards estimated credit loss as required under the regulation. In addition to this, in view of the pandemic, during the period, we have also provided another 66 lakhs towards the COVID Impairment Reserve just to take care of any unexpected surprises if they turn up.

Interest income earned on the financial assets for the period stands at 11.41 crores and the interest expense stands at 3.61 crores. The total expense for the period is 8 crores resulting in a profit before tax of 3.4 crores. The profit after tax for the period stands at 2.31 crores and the earnings per share is at Rs. 1.47 paisa. The net worth of the company as on 31st December 2020 stands at 54.6 crores, thus having a leverage of less than 1, 0.98 times to be precise. The annualized return on assets is at 3.23%. As Kalpesh had pointed out, the board has approved an interim dividend of 15 paisa per share.

As we move towards the last quarter of this fiscal, I have the following points to submit before you. The company is well capitalized with the net worth of 54.6 crores and the debt equity of 1 and the board has also provided enabling resolution to raise further capital. With this, we are in a very good state to strengthen our liability franchise. We have a very conservative provisioning policy and we look forward to continue having the same. Our on-ground team engages closely with the customers, walking the talk that helps us to ensure collection and have a quality loan book. We have invested in an experienced team and a robust system which shall help in being a strong growth booster in the future. I now hand over the call to Mr. Ashish Jain, our MD. Thank you.

Ashish Jain: Thank you, Natesh and Kalpesh. Greetings and once again on my personal behalf and on behalf of Akme family, I welcome you all to this call. My colleagues have shared with you our transformation journey as well as our financial journey and I am sure there would be many questions that could be raised that my team and myself is ready to respond. Let me begin by reliving the journey and setting up the vision of the company for the benefit for all of us. Akme Star HFC was set up by us with intent to be an enabler in first time home purchase for the EWS families. Through our journey of last decade under Version 1.0 and even in Version 2.0, our vision of playing a meaningful role in ensuring these first time home buyers feel the warmth of owning and owned remains the same. Version 2.0 is a scale-up phase of our company which I believe will enable professional management of the company across business areas. We look northwards in Version 2.0. After the infusion of capital by Arkfin, the professionals of the group have mentored and supported our group's journey in both the versions that we are currently pursuing and I take this opportunity to express sincere gratitude to team, Arkfin.

We look forward for continued support whilst the management looks at growth synonymous with quality and controls. I believe that Akme Star HFC is at the inflection point. The current pandemic and resultant lockdown also tested the fabric of the enterprise. We have not only weathered this as an entity, but we have emerged stronger with the demand for low ticket housing finance quickly going back to pre-COVID levels, the green shoots are quickly visible. We believe that with government's technology, infrastructure and manpower in place and with the demand for housing coming back on track, we are slated for the big leap. On behalf of Akme Star HFC, I sincerely thank all our stakeholders including employees, business partners, renders, bankers, auditors, and last but not the least, our regulators, RBI as well as the NHB who have supported the company in its growth aspirations. Thank you. Operator, we can now open the session for question and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mohit Jangir who is an Individual Investor. Please go ahead.

Mohit Jangir: My question was, what was the reason behind the change in registered office from Raipur to Mumbai?

Kalpesh Dave: I will take up that question. The intent behind changing registered office from Udaipur to Mumbai is clearly stands from the fact that as we are scaling up, it is obviously required that we need to have right amount of talent, having right experience to support in the scaleup journey, is it of the centralized office operations and Mumbai is the place where you will get that kind of talent to ensure that over the next 3 to 4 years, the scaleup happens with the right amount of talent. That is the first thing that prompted us to change for registered office. Apart from that Mumbai being the financial hub, most of the banks, financial institution do have their head offices, their corporate offices based out of Mumbai, so it helps the liability team that is raising liability. We have a direct and frequent contact with the offices of these financial institution. So that is the second thing which basically gives an edge to have an office in Mumbai and the third thing obviously the rating agencies, our business associates, all the media partners were we seek to have a coverage of our company of our growth story where we need to reach out through our investors and shareholders, all these things basically can be facilitated in a better manner if we are based out of Mumbai which again as I said is a financial capital and that was the intent of shifting the registered office from Udaipur to Mumbai.

Moderator: Thank you. The next question is from the line of Saurabh Bargawho is an Individual Investor. Please go ahead.

Saurabh Barga: My question is to Mr. Ashish, as indicated that our current AUM stands at around 90 crores right now and as indicated that we are now growing by around say double digit of disbursement fair of 10 crores of disbursement a month, so can we safely assume that by 2022, our AUM would be close to around 250 to 300 crore, am I correct on this?

Ashish Jain: I apologize that my call was disconnected, but I got your question that regarding the current outlook, we are definitely looking at crossing the benchmark what we have said, 250 to 300 crores and this includes our history of the liability of the disbursement of the branch and everything and we will definitely cross this figure by March 2022.

Moderator: Thank you. The next question is from the line of Navneet Singh from Pinnacle Corporate Advisory. Please go ahead.

Navneet Singh: What is the selection criteria for selecting the builders for the flats which we are funding? Does the customer get the builder first or we already certify the builder we are going to fund?

Kalpesh Dave: I will take it up, Kalpesh Dave here. So as you see that I have told it since past 12 months, in our transformation journey, we have disbursed till date to the tune of around 44 crores and all the 44 crores that we have disbursed till date and may I say, even going forward, all the loans will basically be having exclusively retail focus, targeting the first time home buyers who otherwise would not have been getting that kind of assistance like what Akme provides. So the philosophy over here is totally focused on the customer, it is the customer who basically comes to Akme Star HFC, reaches Akme Star HFC or the in-house sales team reaches out to these customers, appraises them and then basically the overall credit and the other technical related formalities taken. So just to answer to your question is the customer is first on-boarded and subsequent to that, the legal and technical analysis of the project that where the customer wants to buy the house or the unit that gets appraised, so that is what the philosophy is we have been following over the past 12 months and would continue to do so.

Moderator: Thank you. The next question is from the line of Rahul Garg from Shifa Family Office. Please go ahead.

Rahul Garg: Sir, my question is regarding the bigger scheme of the things like how Akme want to position themselves in terms of the business model, I mean is it going to be close to the group finance model or is it going to be close to the builder finance model, probably close to like Piramal of the world or the Mas Financial of the world? That is question number one? Question number two, where do we stand in terms of liquidity and capital adequacy ratio? Question number three, are we looking at some green shoots in terms of the real estate buyers? And question number four is about what exactly the changes which we can anticipate down the line 6 month, 1 year in terms of raising the liquidity, may be raising the fund or any plan which we should know at this juncture of time, I appreciate your answers?

Kalpesh Dave: Kalpesh Dave here. So with respect to these four points of yours, the first and third I will answer and second and fourth with respect to liquidity, CRAR and the raising with respect to liquidity, Natesh will answer. So sir, as I told you that the business model that we are following right now and envisage to follow henceforth over the next 3 to 5 years is exclusive focus on retail loans, so just to answer to your question, of the 44 crores that we have disbursed, every ticket size is in the range of around 10 to 11 lakhs, that is the kind of focus that we are having and across the geography this is what we have been following, so the focus will be exclusively on the retail housing loans. The other business model that you have talked about is something which we do not want to pursue because we feel that the market for the retail housing finance itself is so huge with 95% of housing shortage emanating from our customer segment, we do feel that there is a market opportunity available and will be continuing to be available over the next decade or so, so clearly that is the focus and that is what the board has mandated us to follow as well and we would ensure that the scaleup happens exclusively to retail loans. That is what the position as of today. The second thing which you said about the green shoot that have been visible, obviously we as a team also have been following up on the developments very closely with our team on ground, giving us constant feedbacks. I must say to you these pocket micro-markets that we are operating, there is a definite resurgence of demand for these affordable housing units. The property registrations and the application that come to us actually say that we can expect normalcy, however, it is too early to say, I would say the period of the next 6 months would absolutely determine with certainty that these green shoots would blossom into a tree or not. However, having said that the green shoots are definitely visible in the EWS segment, also not only just from the perspective of the demand, also from the perspective of our borrower also, our receivable management program is like right now, absolutely back on track with our collections getting in 100% plus collection efficiency. So if I see about the overall housing finance market as such, when experts say that wherever green shoots will be available, it will be first in the affordable housing sector that actually has stayed through post this lockdown across the geography and I am not talking about one particular geography, there are other, the geography that we are operating in that we are present in actually are seeing that kind of resurgence of demand, however, next 6 months would actually validate whether this would be sustainable going forward. So that is it from my side and Natesh, if you could just update on the liquidity and the changes and the CRAR part of which the gentleman has asked.

Natesh Narayanan: Yes, of course. Coming to the capital adequacy ratio, we are at 93.09% of CRAR as of March 20. Since our debt equity is less, we are quite comfortable on that. Coming to the capital raising part, there are two aspects to it. If you see in the last 12 months, in spite of pandemic or whatever problems has remained, we have managed to raise 21.6 crores of debt and of course the equity from Arkfin was to the extent of 15.5 crores, so total capital of about 37.1 crores were raised above in debt and equity. Currently, we have three bankers and three financial institutions as our mentors as I stated earlier. We are making efforts to increase our liability franchise both not only increasing our existing lines from our bankers, but also adding up new bankers to it. We are innegotiations with multiple bankers and quite confident that by March we will see some positive results. As regards as capital, as I said the board has approved a capital raising plan which is in sync with the growth estimates that we expect over the 3 to 5 years' timeframe. So we are in the process of raising equity as well. So currently, to sum it up, if I have to answer your question short, below one time leverage is such that it gives enough and more rooms for leveraging the balance sheet. That is one. Second, we are also planning to raise equity with 3 to 5 year framework. Now, third, as regards to the liquidity position is concerned and all our buckets up to three years, we are positive, we are not negative, so we are quite comfortable there as well. I hope I have been able to answer your question.

Rahul Garg: What kind of liquidity cash we have in book ending the quarter? And my second question is about, you talked about leverage, the onetime leverage, so what is our history, I mean, where we can expand, how much we can leverage? Where we can manage the risk perfectly, that is another question for the discussion?

Natesh Narayanan: To answer your second question first, as per regulatory guidelines, we can go up to 6 times leverage quickly, so on a net worth of 56 crores, we can easily go up to 200 to 250 crores of debt. That is one. As regards to the cash position is concerned, we have a net cash of including if I take into consideration, the short-term loans which may come through, we have a liquidity position of about 10 crores in our balance sheet as of December 2020. This is without considering the net collections for the month.

Rahul Garg: I understand, we can leverage 6 times, but how much were comfortable, I mean what is our history? How much we were comfortable in the past that maximum up to 3 or 4 or we went to 6 as well in the past where we can manage the risk as well?

Natesh Narayanan: This is a question you have to see it in a perspective. As a company, this was a 63 crores AUM company till the past, so the highest it has gone is roughly about 1.5 times. The journey that you are talking of today is such that history may not be relevant for the future, so to answer your question, what is the comfortable leverage that we can look at, I think 3 to 4 times leverage is definitely a comfortable leverage over the next 12 to 18 months of course as the market sentiments improve, bankers open up, these numbers will be, it is not a static number, it is an evolutionary number.

Rahul Garg: So three times means probably we can make 150 to 200 and then we need equity, right, probably?

Natesh Narayanan: Of course.

Rahul Garg: And another question is about our business geographical area, I mean which area we are focused? Are we going to limit it ourselves to particular area or we are open to other areas as well? And second is about whether we are going to focus on rural particularly or we are okay even in towns and even urban areas?

Kalpesh Dave: So I will take that question, Kalpesh Dave here. So sir, we have our presences across 7 branches, however, these branches may be situated in the city center, but the actual business that gets sourced, it gets sourced from the associated places which are at the extended suburbs of these particular city centers. So when I talk about, let us say, for example, when I talk about Pune, if I am having a branch at Pune, my business is getting sourced from location called Mahur and Baramati. If I talk about, for example, let us say, Indore, then my business is getting sourced from extended suburbs of Devar, Pithampur, Ujjain and so on. Our branch at Surat would be focused on, sourcing being done from the again extended areas of Kadodara, Kim, Kosamba, Vapi, so on and so forth. So clearly our strategy is to have office that is basically based out of city center, however, the loan that gets sourced will be from this extended suburbs, at the same time ensuring that these suburbs are reachable by the branch staff to ensure that the processing in the servicing of the loan during the loan life cycle is being facilitated to the aid of technology as well as the manpower support. So we will understand that the customer segment that we are having, it actually requires walk the talk during the loan life cycle and it actually makes sense for a particular branch person who is responsible for collection of particular accounts to stay in constant connect with the customers and that is the business model that we are right now having that while we have a city center branch, our focus will be extended suburbs which are easily reachable from the branches. So this is the overall segment that we are targeting. Having said that, with respect to coming closer to the city center, obviously as there will be savings that will be accrued on the borrowing cost as we grew, we get favorable rating upgrades which we think we would get over a course of time, subject to our performance. Once that kind of accrual happens with the borrowing cost, obviously our focus will be coming closer to the city center, however, as of now, this is the business model that we are having of extended suburbs, tier 2, tier 3, tier 4 towns where there is a demand of low cost housing financial space.

Rahul Garg: So what is our cost of capital, probably we are funding through banks, so it should be around at least 8% and then how much spread we are generating out of it and in that case, how we are going to compete with the PSB, Public Sector Bank, which are offering loans very cheap now right from may be 7%, so why customer will, because the moment we reckon the profile of our clients, we may be raising the risk, right, so how you are handling this in the entire business model?

Kalpesh Dave: Yes, as Natesh has said that the blended cost of borrowing on the book currently stands at around 10.6%. The annualizedyield on advances is at 16.5%. Our weighted average rate of interest for the incremental disbursement is at around 15 to 16%, so this is the rate of offering that we are handling. Now, obviously rightly as you pointed out that Public Sector Banks and the Co-ops and the other people are also into the frame, but the opportunity size of this particular segment is so huge that if it allows peaceful co-existence across the customer spectrum with the risk based pricing being put in, so that is what basically you may call, what is a differential factor, but that is what actually the market size itself is such unique size that there is an opportunity for peaceful co-existence for all the players. However, what differentiates Akme Star HFC apart is the intent that we like to serve the customer within the pre-defined turnaround time from log in to sanction. So if you compare it with your typical Public Sector or Cooperative Bank, the turnaround time for pursuing the application is abysmally large and that we have seen in our areas of operations where we are present, whereas at Akme Star HFC, basically without compromising on the quality part of the appraisal using the technology to its disposal helps optimizing turnaround time, so that is where what a customer would want. This kind of a customer would want the right kind of loan assistance and that loan assistance is beingcoming at a right time. So that is where Akme Star HFC I think at these micro marketscores over the competition and allows scaleup over these markets. Obviously, if not such kind of inefficiencies that you see in the competition, the HFCs wouldn’t have got this footholdand that is where Akme Star HFC also apart from finding a fertile micromarket in the cases where the competition is present, the servicing and the turnaround time is basically what sets us apart sir.

Moderator: Thank you. The next question is from Saurabh Barga who is an Individual Investor. Please go ahead.

Saurabh Barga: My question is to Mr. Kalpesh. As you indicated that we are offering loans to low income category and say for the first time buyer, so I think it requires a very strong credit and specially the collection system, so how do we plan to address it?

Kalpesh Dave: Sir, as I have mentioned that the existing customer segment is what we are continuing to target, so what we did as a part of the transformation story is that obviously the credit appraisal team is the first gatekeeper of my company, so what we have done is that we have set up a branch banking model, wherein a particular branch headed by the unit head would have a branch staff at its disposal, the in-house sourcing that we right now are doing our transformation journey basically gets the first connect with the customer, where the in-house sourcing stops, basically ensures that the customer has reached out face to face, the information with respect to the income in KYCis captured digitally through the mobility solution and that particular information helps in digitally generating the application form which stands in that particular tablet of it. Once that initial screening Saurabhji is done, that is where the credit appraisal team at a branch level takes over and the credit appraisal process in line with the credit policy get started. That particular customer is visited, is sort person to person meeting by the branch credit staff, wherein through technology, the resident gets verified, the employment gets verified, all the documents that he has submitted again gets verified using the maker checker concept, maker being the sourcing team, the checker being the initial credit team, the overall photographs of that particular customer, how the business premises also gets loaded into the system and the video of the customer during that particular credit appraisal also gets captured through technology through our mobility platform. So with all this information that gets uploaded into that particular system, initial level CAM, branch level credit appraisal memo gets generated which gets validated by the unit head. Once it is getting validated, it then comes over digitally to the head office where the head office credit staff then takes over, then again the overall process of credit appraisal once again gets started, the file may be sent back to the branch for the want of information, may be rejected and may be accepted.So you see, Saurabhji, while the turnaround time has optimized, we have not at all compromising the quality part of it because the risk based pricing is something which we are following Mr. Saurabhover here and at each and every step of credit appraisal process if there is a perceived riskiness that is there in that particular customer segment, it gets build up in that particular model and when you give the sanction letters of the customers, the rate of interest is reflective of the riskiness of the customer profile. So that is how the overall credit appraisal process takes place without having compromise on the quality but the technology actually helps us optimize the turnaround time Saurabhji. So this is what we have been following as a part of a transformation story and this actually due to technology is scalable as well. We can replicate it, we have replicated it in 7 branches, we can replicate it in 25 branches as well. So that basically helps us.

Saurabh Barga: But one more issue comes up normally while funding in extended city areas is there is lot of property title issues normally because people are not that aware in extended city areas about the proper title of the document. So how do we plan to address that? I mean how is our legal system designed decentralized into the branch offices?

Kalpesh Dave: So Saurabhji, what happens is that, as we have said that on the ground level the team, the regional heads that are heading the regions, the unit heads that are manning the location, these basically are the people who have spent the entire careers at this particular location. They know in and out of the projects. They know in and out of the legalities and the technicalities related to the project which probably you and me also would not know sitting in the glass house over here. So that is where the first screening basically happens where a well-portrayed project is getting segregated from well-poised project. So that is the first go where my Unit Head and when my Regional Director says that this is the project, this is where I can think of giving finance assistance subject to legal and technical clearance of the local technical engineers and lawyers, that is the first go for me. The second go, obviously, as I said to you would be the legal and technical process which basically takes with that particular location. The legal and technical reports get generated. It then gets validated by the respective unit heads, comes over to the head office where the operations team actually once again goes through it to check for the validity of the title clearance of the title and then basically a disbursement memo basically gets generated out of it. So that is the process we are trying to do. Going forward as rightly pointed out when we expanding our tentacles into several micro markets, we might think of replicating the same inhouse team for technical and the lawyers at the regional level that will help us to maintain and segregate the quality of the projects with the title, with respect to the project being technically cleared so on and so forth. So this is the process that we are following at this point of time, Saurabhji.

Moderator: Thank you. The next question is from Rahul Garg from Shifa family Office. Please go ahead.

Rahul Garg: So I can see we have the revision in the remuneration for the top management, right. So what was earlier and any reason for such remuneration hike?

Kalpesh Dave: So you would understand and appreciate that the company has been starting from a lower base at that point of time where balance sheets did not have that kind of a wherewithal. Obviously to have that kind of a structure supported in commensurate with the efforts. So what right now has been decided is as we scale up, not only at the level of the directors or the senior management so on and so forth, but as we scale up, there is the P&L that starts looking good, the effort of the team right from the senior management up to the branch level should get commensurate with the efforts that these guys are putting. So that was the reason this revision was due and we thought that as a part of the transformation story going before into the version two, we think that we should go to the mark-to-market levels of the salary as soon as possible for the management as well as for the branch stock across the board.

Rahul Garg: So basically I have to understand there should be incentive bias right, but why not in terms of sweat equity or other stuff rather than directly impacting the cost to the company in initial phase of like and to show that the growth is good and the balance sheet going to be strong. Definitely, there should be very well compensation as well. So that is the reason I asked like for example as of now, I think 96 lakhs is our employee benefit in this quarter, right. So that comes around 4 Cr for the year. Now if I see this figure directly, it looks like 5 Cr directly to the top management, right. So that will hamper the cost. I do not know what exactly the board is thinking, but my question is regarding why not even in terms of sweat equity or putting rather skin in terms of sweat equity which you have actually mentioned what is the plan there?

Kalpesh Dave: So as I told you that the 5 Cr that you are projecting will not be totally going to the top management. While it requires the board approval for the directors remuneration to be hiked, we are reaching to the end of our financial year and at the end of this current appraisal cycle subject to the financial performance of the company, the salary levels of each and every employee if I may say on behalf of Ashish Ji would be reviewed and there is a serious intent to go back to the mark-to-market level of the salary provided the board and the balance sheet can afford part of it. So it is not that the overall chunk of it will go to the directors. The phase wise implementation of these employee programs is in force right now at this point will continue to be. Also with respect to sweat equity, in the current, I think Natesh, can you take this particular question on the sweat equity on the board that what it has approved today?

Natesh Narayanan: I will do that. Before that, I will just highlight 2 things. This entire 96 lakhs or the 2.5 crores for the 9 months comprises of 2 components. If you see up to March 2019, the total employee count was 11. Today, it has gone up to around 45-50. So that is one part. So the entire employee cost is not that it has paid as a director salary or something. It is just that when you have 7 branches, you need to staff them, so that is what is being seen here. That is the first part of your question. Second, as you rightly pointed out, the remuneration should be incentivized directly proportional to the results. So if you see the just concluded board meeting, the board has approved the ESOP plans as well as sweat equity plans in principal. So that is also coming into play over the next 12 to 18 months.

Ashish Jain: One more thing I would like to add. This is Ashish Jain, MD, that the increase in remuneration does not mean that the Directors or the Executives will get that much amount. Definitely, it depends on how much their balance sheet can sustain. So right now whatever the Directors, executives, and the employees, the management is getting, it is in the line of the balance sheet. So definitely as whenever the remuneration of the executives, directors or the teams that will be increased, it has to go again into the board, the approval. So it is just like upto, that is not that we have finalized the remuneration. It is like we have set up a trademark that we would not go beyond this thing and it is not like that we are increasing the remuneration in the next 3-6 months or 1 year. It will depend definitely on the balance sheet.

Moderator: Thank you. The next question is from the line of Gunavanth Vaid from 4Gcapital Ventures. Please go ahead.

Gunavanth Vaid: My question is that investment from Arkfin finance investment, can you put little bit light on this investment, is this strategic investment or a silent investment and if it is a strategic investment, what kind of meaningful contribution they are bringing in and is there anybody who represents them or is there anybody who is representing as a director in the company. So just wanted to understand about the role Arkfin plays in the books of Akme Star Housing?

Kalpesh Dave: Sir, I think we will direct this call to Dinesh. With Dinesh, there is Mr. Anil Sachidanand who is sitting over there. I think he would be answering this particular call.

Anil Sachidanand: Good afternoon. My name is Anil Sachidanand. Thank you Mr. Gunavanth for this call. I represent the Arkfin and warm welcome to all the board members and senior management team of Akme Star Housing Finance and warm welcome to all the other participants on this call. It is good to see and hear the first Q3 earnings call made by the team. To respond to the question of Mr. Gunavanth Vaid, a) we at Arkfin is a set of professionals who have been in the housing finance, banking and non-banking side has worked under opportunity space of housing finance and within Akme Star, we saw an opportunity and that is why we participated into, which is otherwise an economic participation and we look forward to mentor, guide and seek and give whatever direction the board as well as the management takes from Arkfin. Clearly, we see a transformation journey coming in play by the management and board of Akme Star and we are extremely happy that some of the actionables which are on play would see a light of leverage and play as we move into the few new quarters as we see through the journey. Clearly, at Akme Star Housing Finance, especially in this space that they currently operate, we see a lot of opportunity and to build the opportunity with the relevant risk and relevant governance in place is one of the space in which we look at Akme Star. We are also happy that Mr. A. P. Saxena who is the leading figure in the housing finance who understands the risk and governance who has been a veteran in the housing finance, Head Operations with Governance is now part of the board and is helping the board and directing the management. We are happy to have him and be guided by him. So clearly under Ashish Jain, we see now Kalpesh Dave emerging housing finance specialist; we see Natesh Narayanan, a strong financial CFO in making and certainly we see a lot of other professionals who is showing the strength and characteristics to build the company. We at Arkfin believe that there is a tailwind, there is an opportunity space and it needs to be addressed by having a gearing in place, by ensuring that it builds it within the boundaries of strong governance and compliance and to answer Mr. Gunavanth’s question, we are extremely happy as an economic participant with Akme Star and we look forward and we keep giving them any advice as they seek from us clearly. As we look forward, there could be other roles that could come in, but as we speak today, we are strongly looking at the opportunity space that is there in this sector and we sense this opportunity space both on the liability franchise as well as on the asset franchise and look forward in creating that alongside the company. So thank you Mr. Gunavanth for asking this question.

Gunavanth Vaid: So do I see a meaningful contribution from Arkfin going forward in terms of further more equity or can I assume that Arkfin with its resources, with their kind of experience they have in housing finance company, they will bring much more strategic investors on an equity participation basis to Akme Star Housing, is that a possibility in the near future?

Anil Sachidanand: Everything is a possibility Mr.Gunavanth and we thank to response given that we are a part of a listed entity and we are govern by the norms. So clearly as an entity, Arkfin look at providing the mentorship or guidance as and when the board/management team is taking from us and we are extremely happy providing them with that. Yes, you are right that at Arkfin, we are a set ofprofessional who comes from housing finance background, who comes from a deep knowledge ofthis sector and plays and clearly that play will help, assist, support in the way and fashion that Akme Star is looking at. To answer your second question, do they require a capital, of course for the play of balance sheet side that they are looking in, the balance sheet wouldrequire additional capital and we at Arkfin will always be looking at an opportunity to participate in the balance sheet and equity of the company. Do we look forward as to have a larger equity play in the company, of course once the board and the management does the relevant roadshows, we will be looking at those opportunity space given that equity is one play, they need to leverage the current net worth and there is a lot of opportunity to unlock given that it is currently a BSE listed company and there is an opportunity for complying with all the norms of NSE over a period of time and then get itself fully qualified to be listed in NSE, so at Arkfin, we do have a noncontrolling state, but we do see lot of opportunity as they are economic participant to this company and clearly alongside Ashish, who is currently the Managing Director and the young team, we clearly see an opportunity space in this sector and you are right Mr. Gunavanth so we would clearly look at opportunity as we go along and the board of Arkfin will also take the decision and informing about the equity participation.

Ashish Jain: In addition to it, I would like to take this opportunity what Mr. Gunavanthji has raised that the main what Arkfin has contributed to Akme Star journey in last one year, if you can see the transformation of December 19 to December 20 or from March 19 to March 20 or in the current year, you can easily see that in the balance sheet also that we have introduced some new professional to have a better presence and corporate governance as you think because this team has a huge experience of more than may be 300 years of professionals and that is it, so I think that if compare from my side, from Akme Star HFC that would be much more better, so that the people and the investors can understand that what the journey has been so far. So I really appreciate this.

Moderator: Thank you. The next question is from Sandeep Bandari who is an Individual Investor. Please go ahead.

Sandeep Bandari: Sandeep here, I just have one question, that is such a low loan book, we are so thinly spread across states, because we have seen normally housing finance companies have a strong hold in one state, then they move onto other states, but we are at such a small loan book, what is the rationale spreading so thinly across states and normally it doesn't give any synergy as such, just a thought on that thing, Kalpesh on that?

Kalpesh Dave: I will take that particular thing. Obviously, if you view from the perspective of what currently the loan book is, that probably would not make much of a sense to expand to so many geographies in such a short time, may be just be in the state of Rajasthan itself and in short, we have those presence is being replicated over there, but what happens is that when first of all the legacy book being concentrated in the state of Rajasthan, obviously brings along with it that kind of concentration risk which probably is not appreciated by many stakeholders including rating agencies, so that basically gives one particular opportunity to look out for the extended market. And second point is that when you look at a Version 2.0 which we just said and the kind of scaleup that we are envisaging, we would not like to give any kind of forward looking statement as such, but over the next 36 to 48 months as Ashishji rightly pointed out that this company is at inflection point and lot many activities from funding side, from the deployment side and other things are getting planned out, employees are getting onboarded, so to ensure that such kind of a scaleup when it happens in future, it should not happen that it gets concentrated in one particular geography which gives us a**(60:37)(Inaudible)**of concentration risk, hence it makes sense to spread out through the different markets and even when we are spreading out, you will understand that we are trying to spread out in those adjoining markets where Rajasthan, Gujarat and Madhya Pradesh are more or less kind of same. The contours change when we come to Maharashtra. That is probably in real sensethere is an expansion and the second expansion that we are doing down South actually make sense because Tamil Nadu probably is second largest, is not the largest market for the low ticket housing loan application in the retail side. So just to answer to your question, yes, on an existing book, obviously the expansion would look as to what is the need for it, however, what we are trying to do what we envisage to do going forward actually makes case for expansion and furthermore expansion into newer geographies to ensure that the deployment happens at different locations and the book is devoid of any kind of concentration risks.

Moderator: Thank you. The next question is from Rahul Garg from Shifa Family Office. Please go ahead.

Rahul Garg: Sir, my question again is from the client profiling, so do we look at SIBIL score as a prime or do we sense that okay, once the property valuations are right, because it is a secured loan, we go ahead and basically line to them, that is question number one?And of the size of loan which is coming around 10 to 12 lakhs, it looks like we are probably into suburbs kind of area, then I have a question on, whether management is aware of this Svamitva Yojana of the government and any comment on it?

Kalpesh Dave: I will take it up. So as you rightly pointed out, whether we looked at the SIBIL or we just don't look at the SIBIL, our credit appraisal presence is comprehensive in nature. We actually take care of SIBIL into account.Having said that we have also our in-house appraisal mechanism that our credit team has developed that it follows and the overall credit appraisal is a blend of qualitative and quantitative data point that are getting captured during the loan appraisal process, because this is a customer segment in size that you cannot just rely on the quantitative data or even the historical data that score like a SIBIL throws up. You would obviously want to know or rather assess the ability and willingness of this particular customer to repay over the next 15 years of the loan life cycle given the kind of things that may come into anyone's life cycle. So it is actually sitting with the customer, understanding his requirement/her requirement, what kind of gauging can be done at a branch level and then that can be getting incorporated in the in-house credit appraisal mechanism and the credit appraisal memo so it is not just a SIBIL that we did look at or even we don’t look at SIBIL, that is not the case. The credit quality clearly dictates that all that is being available gets connected and then the credit appraisal memo takes care of the case and is getting presented at the branch level or at the head office for that matter. Obviously, the appraisal mechanism consists of credit technical and legal which any housing finance company would have. Credit takes care of the customer and legal and technical takes care of the property, property obviously has to be in line with whatever trade and technical appraisal report gives to us, that gives a great comfort and based on that particular comfort, we can kind of take a call on the customer. It is never that call both on property and the customer, it is always the call on the customer, that is what basically the credit team takes care of and it is the decision of credit team. No one interferes on that part of it. So that is one bit of it and obviously second thing that you said that with the loan size, obviously we have a loan size of average ticket size, incremental ticket size of 10 to 12 lakhs. Do we want to participate in any of the state or central government housing project, case by case basis, we may do it, we do not exclusively want to participate in one particular project as such as I said that our sourcing mechanism is such that it is a need base customers who come to us to get the loan, so if that particular customer comes from once to avail a loan into any of the existing project by government, the credit team and the legal technical appraisal takes care of it. We do not deny the customer at the same time, we do not okay the customer as well, it all depends on the appraisal, irrespective of whichever scheme government or non-government comes to the forein the markets that we operate.

Rahul Garg: I appreciate, I would urge again to look into this scheme probably.My last question is about, how much is our accumulated NPA last 5 years or provision made for?

Natesh Narayanan: As of 31st December 2020, our total provision for impairment loss stands at 1.63 crores, for this 9-month period, provision, a total of 61 lakhs has been made for this 9 month period towards estimated credit loss.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Kalpesh Dave for closing comments.

Kalpesh Dave: Thank you. Thank you operator. So on behalf of Akme Star Housing Finance Limited, I thank everybody for attending this earnings call. In case of any further queries, please do get in touch with our investor relations desk. Thank you and take care. Bye.

Moderator: Thank you very much. On behalf of Akme Star HFC, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.