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Sub: Transcript of the Earnings Con-call of Q2 for the FY 2022-23.

Dear Sir/Ma'am,

Pursuant to the provisions of Regulation 30 read along with Schedule III of SEBI(Listing Obligation and Disclosure Requirements) Regulations, 2015("Listing Regulations"), please find the attached transcript of the Earnings Con-call of Q2 for the FY 2022-23 held on Monday, 07th November, 2022.

Further, in terms of regulation 46 of the Listing Regulations, the aforementioned transcript of the Earnings Con-call shall also available on the Company's website at www.smcindiaonline.com.

This is for your information and record..

For SMC Global Securities Limited

Suman Kumar

E.V.P (Corporate Affairs), Company Secretary & Compliance Officer

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SMC Global Securities Limited
FY23 Earnings Conference Call
November 07, 2022

Moderator: Ladies and gentlemen, good day and welcome to the SMC Global Securities Limited Q2 FY23 Earnings Conference Call. As a reminder all participants lines are 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 telephone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors.

Anuj Sonpal: Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of SMC Global Securities Limited. On behalf of the company, I would like to thank you all for participating in the earnings call for the second quarter of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings conference call may be forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements and making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. Now let me introduce to the management participating with us in today's earnings call and hand it over to them for opening remarks. We have with us, Mr. Subhash C. Aggarwal - Chairman and Managing Director; Mr. Mahesh Chand Gupta - Vice-Chairman and Managing Director; Mr. Ajay Garg - Director and CEO of the SMC Global Securities Limited; Mr. Himanshu Gupta – Chairman and CEO of Moneywise Financial Services Limited; Mr. D. K. Aggarwal - CMD of SMC Capitals Limited; Mr. Anurag Bansal - Director of SMC Global Securities Limited and Mr. Pranay Aggarwal – Chairman and CEO of Stoxkart, Moneywise Finvest Limited and Mr. Vinod Kumar Jamar - President and Group CFO. Now without any further delay, I request Mr. Subhash Aggarwal to start with his opening remarks. Thank you and over to you, sir.

Subhash Aggarwal: Thank You, Anuj. Good afternoon, everyone. It is a pleasure to welcome you all to the earnings conference call of our company for the second quarter of the financial year 2022-23. For the benefit of those joining this call for the first time let me begin by providing some background information on our company to get everyone on the same page. SMC Global Securities over the years has grown into a diversified financial services company offering a wide spectrum of

services like brokerage, investment banking, wealth management, distribution of financial products, financing, insurance broking, trading and depository services; fixed income securities, financial advisory services to corporates, institutions, high net worth individuals and other retail clients. We have a strong network of more than 2,479 of sub brokers and authorized persons spreading across 453 cities in India.

Over the years, we have also launched various innovative digital technology-enabled capabilities to offer best-in-class products and services. Our discount broking arm under the brand name of Stoxkart which is the first of its kind placed on in the broking industry has noticed a very positive response. The company is governed by strong board including 6 Independent Directors of high standing and is run by a highly qualified and experienced management team. With our established presence and by embracing the latest technologies we are pioneered for continued growth these upcoming years. I now hand over to Mr. Vinod Jamar, our Group CFO to take you through the financial and operational accomplishments for the second quarter of financial year 2023. Over to Mr. Vinod Jamar.

Vinod Kumar Jamar:

Thank You Subhash Sir. Good afternoon, everyone. Talking about the financial performance of the quarter 2 FY2023 of our company on a consolidated basis. The operating income for the quarter was Rs. 301 crores an increase of about 5% year-on-year. The operating EBITDA was reported approximately Rs. 65 crores a decrease of approximately 22% year-on-year from Rs. 83 crores in the corresponding period and the EBITDA margin stood nearly 22%. Net profit after tax reported was Rs. 30 crores which was Rs. 52 crores in the corresponding period. While the PAT margin stood at 10% for the half year of FY2023 the operating income was Rs. 592 crores an increase of 9% year-on-year operating EBITDA reported was approximately Rs. 136 crores, a decrease of approximately 14% year-on-year and whereas the EBITDA margin stood at about 23%. Net profit after tax was reported at approximately 67 Crores a decrease of 33% year-on-year from 99 crores. The PAT margin percentage stood at about 11%.

Let me now take you through quarterly segmental performance on a consolidated basis for the second quarter. In the broking distribution and trading segments due to decline in investment income revenue fell by 8% year-on-year in the second quarter and slightly decreased on quarter-on-quarter and 1% Y-o-Y for the half year. The EBIT of this segment was Rs. 39 crores, which declined from 68 crores on a year-on-year basis in the second quarter.

Coming to the insurance broking division the revenue of the quarter recorded was Rs. 83 crores which increased by 34% year-on-year. About 13% on quarter-on-quarter whereas 35% year-on-year for the half year. The EBIT was approximately Rs.2 crores, which was decreased by 24% year-on-year for the second quarter but rose by 48% in first half of the year as a result of increasing demand of vehicle sales which led to higher insurance premium.

Lastly, in the financing division segment, the revenue for the quarter was Rs. 29 crores an increase of about 21% on year-on-year basis. It has decreased 12% on a quarter-on-quarter

basis and increase 33% on year-on-year basis. The loan book increased by 30% year-on-year from Rs. 561 crores to Rs. 727 crores. GNPA and NNPA dropped from 2.92% and 2.18% respectively year-on-year to 2.62% and 1.5% respectively. EBIT rose by 127% year-on-year in the second quarter and 77% for the first half. With this, we can now open the floor for question-and-answer sessions. Thank You

Moderator:

Thank you. we will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to withdraw yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Anyone who wish to ask a question may please press "*" and "1" at the same. First question is from the line of Samir as an individual investor. Please go ahead.

Samir:

I wanted to ask that the topline growth has been muted this quarter and margins have also declined. So can you explain the reasons for the same.

Vinod Kumar Jamar:

This is Vinod Jamar, I will explain you the reason. Actually, during the last year September 6th month ended, we had huge investment income of about Rs.46 crores whereas this year it is only Rs.8 crores. So, the impact of Rs.38 crores is both on the topline and bottom line. So, if you, ignore the impact of this extraordinary item, our topline has grown by 18% and we are able to maintain our margins at the last year's level. The only impact is of this item of investment income.

Samir:

Okay sir, and I also wanted to ask that like what are the sustainable EBITDA margins as it seems that margins have also been volatile.

Vinod Kumar Jamar:

Our sustainable EBITDA margins are in the range of 22%-23%. Last year, if you see because of this extra investment income it rose to 29%. The EBITDA margin 22%-23% is quite maintainable and we can even raise it in future. Since, we are spending on technology so the benefit will accrue in the near future.

Samir:

Okay sir also another question of mine is that on half yearly basis it seems that the profit are down 30% year-on-year. So wanted to understand what is the outlook for topline and bottom line for entire FY2023.

Vinod Kumar Jamar:

As I told you that we have been able to maintain our EBITDA margin, as well as growth in top line. So, the impact of investment income will not be there in the next half. So, we expect a robust result for the next half.

Samir:

One more question, can you explain the reason for the rise in depreciation and interest costs that we have had?

Vinod Kumar Jamar: Depreciation has risen because as I told you that we had we have invested heavily in the technology. So obviously with technology with IT equipments which attract high depreciation rate. So that is the reason of increase in depreciation. And what was your next question, sir?

Samir: The reason for the rise in interest cost.

Vinod Kumar Jamar: So, as we discussed our loan book in NBFC has increased substantially, so our interest cost has increased. But if you look at the interest income it has increased much higher than what the cost of interest increased.

Moderator: Thank you. The next question is from the line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: Firstly, on the broking business. If you can now bifurcate your top line, the broking revenues with the top line, which is your broking in trading revenues into the discount broking that the revenues which are coming from the discount broking piece and the ones which are coming from the sub broking network.

Vinod Kumar Jamar: Yes, you wanted breakup of broking distribution. So around 24% is income is from arbitrage business of the segment revenue. Say, for half yearly, our revenue is Rs.395 crores so around 24% is from arbitrage business.

Sahej Mittal: 24% is from what?

Vinod Kumar Jamar: Its Rs. 395 crores include 24% of it as arbitrage income.

Sahej Mittal: This arbitrage income, sir I could not get you. I mean, I am. What is this arbitrage income?

Vinod Kumar Jamar: We have a proprietary desk and we trade for all our own accounts and try to get the advantage of the market's arbitrage. So, both the legs are done simultaneous basis as such there are no risk, but we still earn handsome profit from this activity.

Sahej Mittal: Got it. So out of these Rs. 395 crores, 24% is your prop book, I mean instead of that what percentage of your revenue, if you could give an absolute number, the top line which is coming from Stoxkart, which is the discount, broking piece.

Vinod Kumar Jamar: Stoxkart, the absolute number will be in the range of Rs.12 crores for the six months.

Sahej Mittal: It is just Rs.12 crores.

Vinod Kumar Jamar: Yes, we have.

Sahej Mittal: And what is the QoQ number for quarter 1 and the year over year number, I am not sure, if this was launched one year back.

Vinod Kumar Jamar: Stoxkart quarter-on-quarter, Stoxkart revenue for the quarter was Rs.5.08 crores, last year, it was Rs.3.32 crores. For the half year ended, it was Rs.11.05 crores against Rs.7.1 crores. Last year in totality we earned Rs.15 crores out of Stoxkart but this year we are likely to exceed it by a huge margin.

Sahej Mittal: And this Rs.12 crores is only out of charging Rs.15 per order from customers who are making profit on the trade. Is that the right understanding.

Pranay Aggarwal: Hi I am Pranay Aggarwal, CEO of Stoxkart, so I will take up this question. So basically, we have multiple revenue streams in Stoxkart. First, is the brokerage, as you rightly said, Rs.15 per order. Second, we will say would be interest income on the margin trading facility to the client. So that is also forming our revenue and I think other would be the basic charges, which is like account opening and different schemes, we run for our clients. So, all of them combined would be the figure that Jamar Ji quoted of Rs.12 crores.

Sahej Mittal: Okay, and what would be the pure broking revenues which come from Rs.15 per order?

Pranay Aggarwal: Brokerage, I will just get back to you may be Fees & commission.

Sahej Mittal: Because the reason I am trying to ask this, is that in the intraday trading, most of the retail customers, do not end up making profits side and if your discount broking model is such that you are charging Rs.15 per order, only on the trade with the customer makes profit. So, I am just trying to get a sense of what percentage of your customers are making a profit.

Pranay Aggarwal: I will just clarify regarding this. So basically, our scheme is, we do not charge on loss making transaction and it is determined on the second leg. So, any case we charge for the first leg. The brokerage is charged for the first leg, only on the second leg we forgo our part of brokerage if the client is squaring of the position in a lot and that too, on intraday cash. And I think 80% of our brokerage is derived from F&O and F&O is not where the scheme is applicable. Also, I got the figure for the pure broking income. Pure broking income out of Rs.12 crore would be Rs.7.28 crores.

Sahej Mittal: 7.28 Crore is the revenue which are coming out of Rs.15 per order.

Pranay Aggarwal: Yes, you are right.

Sahej Mittal: And what sort of growth do you foresee for this discount broking model given the kind of competitive intensity which we have right now.

Pranay Aggarwal: I will just clarify actually it is Fees & commission income which will include all kind of charges we have from client because we have clearing charges and other charges also. So that combined I have a figure of Rs.7.28 crores, other part would be our interest. It would be interest, which is separate. Interest on margin trading facility is separate Rs.7.28 crores includes, all the kind of charges we have for clients.

Sahej Mittal: And does this include the pass through which we make to our sub brokers, or do we not have the Stoxkart to available to our sub broker network.

Pranay Aggarwal: This is the gross brokerage. So, pass through would be included, this is a gross brokerage figure. We have our sub broking network also we have around more than 2000, BDR, we call them, which are channel partners.

Sahej Mittal: Right, and what percentage of our Stoxkart revenue is coming directly and what percentage is coming through the sub broking network?

Pranay Aggarwal: So basically, if you talk about revenue terms, it will be around 4% through. I will just give a ballpark figure. The revenue is not in front of me, ballpark figure around 40% is retail and 60% revenue comes through sub broker channels.

Sahej Mittal: 40% comes directly and 60%, through the sub broking network.

Pranay Aggarwal: 60% sub broker channel, 40 percent retail, it's a ballpark figure.

Sahej Mittal: And this is for the Stoxkart platform, right? Stoxkart, that is the discount broking firm.

Pranay Aggarwal: I am talking particularly about Stoxkart right now.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor and Co.

Saket Kapoor: Firstly, sir you spoke about investment in technology that would increase your margin to 28%-29% so if you dwell more into it. What kind of investment are these? And so that you have a visibility of when incremental margin of 6%-7% going ahead.

Vinod Kumar Jamar: Sir, let me clarify that the EBITDA margin 29% was last year in the six months, ended September 2021 because of the higher investment income, which is basically not a recurring nature of income. So, what I informed is, we are maintaining, if we exclude the impact of that income in the last six months our EBITDA margin is maintained at 22%-23% which is sustainable but we expect this to increase because we are investing heavily in the technology. So, I have not given any figure that from 2022 where we will we go? But we are sure, we are confident that it will increase in the near future.

Saket Kapoor: Okay, sir if you could explain sir, what is the investment, we are going through where is this investment, we are going to make and what is the quantum and what are the return ratio if you could elaborate more technology is a big word but it needs explanation. So, I was just taking that thought process from you.

Subhash Aggarwal: Yes, myself Subhash Aggarwal, CMD, SMC Group. Basically, last year we have employed our CTO. We were doing technology with different teams and as currently, we have consolidated the entire team, we hired more members in the IT team and that is why our salary also increased and we purchased latest servers and so many changes we are doing to improve our technology in terms of back office, comprising the client CRF, improving our app and research and technology. So, we are working on all front and still if you want to understand the entire thing, I can connect with the CTO and he can explain the vision also. Otherwise, we are doing our best to achieve the height in technology and I think very soon we will improve our old trading platforms and back-office platform and everything.

Saket Kapoor: Correct, sir. And what is the kind of investments we are going through and a ballpark number? How much are we investing?

Subhash Aggarwal: You see such expenses are included in salary, our servers, technology equipment but still I can give you figure which around is around Rs.11 crores directly. Otherwise, indirect expenditure, not debited in technology are in the form of salary and other expenses.

Saket Kapoor: This Rs.11 crores is for this quarter.

Subhash Aggarwal: Yes, for six months, annually we have Rs.25 crores budget. Rs.25 crores as direct budget, which is in servers, switches and all other technology expenses. Or indirectly I can say that salaries are being excluded in that. Office expenses and everything are excluded in that.

Saket Kapoor: So, we have also made some investment in land shifting our offices. What is the update on the sense where are we?

Subhash Aggarwal: I think in the last quarter also you have asked the same question and we have applied for this passing of our maps and some height issue was there earlier. We were asking for 60-meter height and Airport Authority allowed at up to 50-meter and we have filed an appeal so it can be around. 55 meter possible. But we are expecting that very soon. We will get in place everything and construction will start within one month.

Saket Kapoor: As of now, only the investment in land, we have done the registry which we have done.

Subhash Aggarwal: Yes.

Saket Kapoor: Sir, earlier we used to provide the segmental reporting, please correct me sir, this time I could not find the segmental reporting. Any changes we have done for or am I missing something?

Vinod Kumar Jamar: No sir, this time also we have given segmental reporting. You might have seen the published numbers only, so you have to go to our website where we have given a reference. The detailed results which were sent to stock exchanges. Segment reporting is also there, our balance sheet and everything cash flow and everything is there as per SEBI requirement.

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

Parth: Sir, my first question is the broking business, revenues and margins are down significantly. Can you explain the reason for this? Also does this mean that are we losing market share?

Vinod Kumar Jamar: Let me clarify. I just clarified this to the earlier audience. So last year September 2021, six months, we had the investment income of Rs.46 crores. So, you will agree that this income is not in a recurring nature, we got an opportunity last year but this is not a recurring nature of income. This year, we earn around Rs.8 crores. So, the deficit of 38 crores is being depicted in the ratios. So, if you exclude the impact of this extraordinary item, we have maintained our last year's EBITDA margins, we have maintained our market share. So, everything is maintained last year, we had this extra income. An income, which we got opportunity and we got the income. So, this year, it is not repeated, so it depends on the market conditions. If we get risk-free returns, we do invest otherwise our business is arbitrage business where we do not have any risk. This entire thing is hedged. So all the buy and sale trade is done simultaneously. But sometimes when we see some opportunity in the market, we do invest in a safe security, where risk reward ratio is 10% risk and 90% reward. So, if we do not get such opportunities, we only do arbitrage not the pure investment.

Participant: And the second question is on the mutual fund and wealth management division these numbers have come down as per your presentation in H1 FY23. So can you explain, the reason for this as these industries are doing well.

Vinod Kumar Jamar: Our director Mr. DK Aggarwal will be taking this question, DK sir, are you there?

DK Aggarwal: This is Dr. DK Aggarwal, this AUM from Rs.540 crores which has come down to 512 crores in last six months and this is because there has been certain exists from alternate investment funds. These were reinvestment made by the clients, few years back and now they have been adjusting those AIF Investments. So, this around Rs.40 crores has been exit on account of these alternate investment funds redemptions.

Moderator: Thank you. The next question is from the line of Krina Shah as an individual investor. Please go ahead.

Krina Shah: So, I have a couple of questions. So, the first question, most brokerage houses are getting digitalized. So, could you talk on a bit about it like how SMC is digitizing as such.

Ajay Garg: This is Ajay Garg, CEO of the company. So early like we are also focused on the mobile app, we are in process of developing on new technology. The new mobile app, so as even Subhash ji pointed out like we had a big IT team and focus is there on improving technologies. So, we are developing in-house mobile app which be launched early next financial year and like we focusing more on even digital marketing and even improving the back-office application. So full focus is there on improving the technology and we do have a very sound research team. We do have in-house, one unique software by the name of Autotrender Next. and we are also maintaining certain telegram channels which is liked by various investors even the non-SMC client, they also subscribe through that. So as far as digitization is concerned, I think, within next few months, we would be best-in-class.

Krina Shah: So, I have one more question, which is regarding to Stoxkart. So, can you please explain how Stoxkart is differentiating itself from other players, like Zerodha and Angel One?

Pranay Aggarwal: Yes, hi, very good question. I am Pranay Aggarwal, CEO of Stoxkart. So basically, as we have this pricing strategy, which was first introduced by us which is no profit, no brokerage, Rs.15 per order, only when you earn profit. We charge only on the first leg and on the second leg, if the trade is squared off in a loss, then we would forego our part of brokerage. So, this is one differentiating factor, which is also generating a pull in the market for the clients. Also, we have deployed many strategies on our platform through which customer can easily trade, like avoiding tech jargons in our platform and many strategies customer can deploy for option trading. We are providing best-in-class charts of both chart IQ and trading view. So, these are the kind of touches we have done, which I think would be taking us ahead. Also, as Ajay ji pointed out, we are SMC Global and Stoxkart both are in process of launching a new app, and it will be launched early next year and I think that will generate huge markets that can generate and lead to a good greater market share for Stoxkart. Today, our focus is on maintaining ARPU, but given our new app. We will increase the market share and we will focus more and more on getting it out there to the customers, through digital marketing and everything.

Moderator: Thank you. We have a follow-up question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir, I missed your remark on the growth in the NBFC business and for the insurance broking business. What is currently our book size and with the rising interest rate cycle? How are we seeing our financing activities segment, revenues and profitability trajectory going ahead?

Himanshu Gupta: Hi, this is Himanshu Gupta, CEO of NBFC business. So currently we have a AUM of Rs.727 crores at the end of September quarter which was Rs.690 crores at the end of March and if you compare it with the corresponding quarter the previous year, that was about Rs.561 crores. So, there is a substantial jump in the AUM over the last one-year period and going forward we do continue to grow the AUM in the NBFC, and we have a target to cross 1000 Crores AUM very soon. Coming to the other question, which is the rising interest rates in the market. So, as

you rightly said, the RBI has hiked repo rate multiple times in the last 3 to 4 months and correspondingly banks have also increased their lending rates. However, we have been able to maintain our borrowing costs at a very competitive rate. Currently, our average borrowing cost stands at about 9.25%, which is very competitive in our size of NBFC and we are we have been able to renegotiate and get the borrowings at the lowest rate from the banks. And moreover, we are lending some of our products like in the loan against property. We are lending at floating rate. So, we are able to pass on the change in the interest cost to our customers which we have done about couple of months back also. And going forward, if needed we would all again pass it on to the customers.

Saket Kapoor: Sir, what are our NIM currently in the NBFC business?

Himanshu Gupta: NIM, if you will see is about 12.88% as of in this period. However, that is very higher compared to the industry, which stands at about 5% kind of NIM. That is largely because we are very low leverage with just 1:1 of debt equity ratio. As we will increase the debt equity and NIM would settle at somewhere at around 3-3.5 which would be at the industry level.

Saket Kapoor: Sir, I did not get it. What is our average lending rate, then on a book size of Rs.900 crores? What is the average lending rate?

Himanshu Gupta: So, we are borrowing at Rs.925 approx. and lending at about 15% approx. So that is spread that we are running which is about 5%-6%

Saket Kapoor: So that is a net interest margin sir?

Himanshu Gupta: Net interest margin is calculated in a slightly different manner so that is coming to about 12.88%.

Saket Kapoor: Who are our key borrowers which segment are we lending to?

Himanshu Gupta: So, the most of the products are focused on SME customers, wherein the customers would be in different kind of industry like into manufacturing or traders or may be into service industry. So, these are small businesses could have a turnover of about Rs.2 crores to 70 crores and we lend on the basis of the cash flows that the business is able to maintain to repay the debt

Saket Kapoor: What is the average ticket size, sir?

Himanshu Gupta: It varies actually by our product. For example, in lab, we are having average ticket of about Rs.1.2 crores, in medical equipment our average would be about Rs.1.5 crores and for unsecured SME working capital term loan, the average would be about Rs.18 lakhs.

Saket Kapoor: And what are the slippages at the NPA part.

Himanshu Gupta: As of September, our gross NPA stood at 2.62% net NPA stood at 1.5%. And during the quarter actually, we had a reversal in the credit costs. So, we have seen like the higher amount of provisioning that we have done in past years especially during the COVID. So, in this particular quarter, we have seen reversals in the provision and the collection efficiencies are hovering at about 99%.

Saket Kapoor: Okay that is all from my side and I will get back to the team since as Aggarwal sir has already mentioned would like to understand the technological changes that we are embarking. I can take it offline. Thank you for all the elaborate answers.

Moderator: Ladies and gentlemen, that would be a last question for today. I now hand the conference over to Mr. Mahesh Gupta from SMC Global Securities Limited for closing comments. Thank you and over to you sir.

Mahesh Gupta: Hello, myself Mahesh Gupta. Thank you all for participating in this earning conference call. I hope, we have been able to answer your question satisfactorily. If you have any other further question or would like to know more about the company, please, reach out to our Investor Relations Manager at Valorem Advisors. Thank you, stay safe and healthy. Thank you very much to all.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of SMC Global Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.