



“Manappuram Finance Limited Q2 Financial Year 2016 Results Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Manappuram Finance Limited Q2 FY 2016 conference call, hosted by IDFC 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanketh Godha. Thank you. Over to you Sir!

Sanketh Godha: Thank you. Good evening everybody and welcome to Manappuram Finance Earnings call to discuss Q2 FY 2016 results. We have on the call Mr. V.P. Nandakumar who is Managing Director and CEO and Mr. Kapil Krishnan, Group Chief Financial Officer to discuss the results. May I request the management to take us through the financial highlights subsequent to which we can open the floor for question and answers, over to you Sir!

Kapil Krishnan: Ladies and gentlemen welcome to Manappuram's Q2 FY 2016 conference call. For the quarter ended September 2015 our consolidated AUM stood at 10220.3 Crores which was an increase of 116 Crores from the previous quarter.

Our consolidated income from operations was Rs.552.5 Crores compared to Rs.539 Crores in Q1 a 2.5% increase QOQ. The consolidated profit after tax was Rs.63 Crores compared to Rs.59.3 Crores in the previous quarter, a 6.3% QOQ increase.

Coming to standalone quarterly numbers our closing book was Rs.9635 Crores. It was marginally lower by 30 Crores compared to the previous quarter figures. The average gold loan AUM for the quarter was 9531 Crores. Auctions during the quarter were 804 Crores and this figure was 250 Crores higher than the auction level in Q1 FY 2016, which was mainly because we auctioned the book of the earlier long-term scheme and the new scheme which was one of the reasons for the muted gold loan growth in Q2.

Our total number of customers stood at 18.45 lakhs. There was an addition of 3.2 lakh customers in the quarter. Weighted average LTV was 67.5%, gold loan disbursements continued to be strong at 7981 Crores. Our gold holdings in fact went up by 2.2% QOQ to 57.3 tonnes.

The underlying volume growth is higher than the AUM growth, which is a good sign. The gold holdings were up 20% on a YOY basis and 2.2% on a QOQ basis compared to a year-on-year AUM increase of 13%. This is mainly because of a 6% decline in the LTV on a year-on-year basis.

As investors are aware we have been a pioneer in shifting to shorter tenure products a year back in June 2014 itself. Now for a one year loan we offer 60% LTV and the maximum 75% LTV is being offered for the shorter term products. Our entire gold loan book is now made up of this new product. This is a significant move for the company as we are now insulated from the fluctuations in gold price and we expect net yields to go up in Q3, as interest reversals on account of loans going out of money will be very less now.

The new businesses we set up and acquired in FY 2015 are also gaining traction. Together they now comprise 6.7% of our consolidated AUM. Asirvad Microfinance had a closing AUM of Rs.538 Crores, a 29% increase QOQ. It has 198 branches and earned an ROA of over 4%.

The home loan business had a book of 45.5 Crores and loans against property book of 41 Crores. Commercial vehicle business had a book of 59 Crores. As you know each of these new businesses are run by dedicated professionals with extensive relevant industry experience right from the top management till the branch level. We expect the new businesses to contribute around 25% of our total AUM by FY 2018.

Financing cost increased by 2.6% during the quarter to Rs.242 Crores. Our average cost of borrowings was down by 48 basis points and stood at 11.1%. The average borrowing cost is down 126 basis points on a year-on-year basis and 200 basis points over a two-year period. The costs have been coming down steadily due to our improved financial position and we expect further decline in costs in the coming quarters as well since around 72% of our borrowings are from banks, which will benefit from the 30-basis point reduction in base rate that has happened in Q3.

Our employee cost increased 3.3% to Rs.105.3 Crores from the previous quarter. The increase was mainly due to an increase in head count and our consolidated head count for all businesses put together now stood at 18300.

There was a marginal 2% increase in the administrative costs from 86.3 Crores to 88.1 Crores. The depreciation cost increased from 12.3 Crores to 13.4 Crores. Overall number of gold loan branches was stable at 3293. Provisions and write offs for the standalone entity stood at 5.6 Crores which were lower than the level in Q1 mainly because the gross NPAs came down to 1% and as you remember in Q1 we took the full impact of increase in standard provisions from 25-basis points to 30-basis points.

Most of the gross NPAs relate to accounts that have regularly service interest though the loan is not closed, which means that they are actually good loans. Loss assets due to thefts,

spurious gold, etc., stood at 8 basis points of the AUM. This shows a robustness of our internal risk management systems.

The company's consolidated networth stood at Rs.2664 Crores as on September end. The book value per share was Rs.31.7. An interim dividend of Re.0.45 per share has been declared by the board. Capital adequacy stood at 25.3%, and total borrowings stood at Rs.8767 Crores.

I will now request our Promoter and Managing Director, Mr. Nandakumar to share his views on our overall business environment.

V.P. Nandakumar:

Thank you Kapil. Thank you all for joining us in this concall to discuss our Q2 results.

The monsoon season ended with India suffering rainfall deficit of about 14%. With some of the regions experiencing almost 50% deficit. This kind of deficit is said to be a one in 18 year event. A fall out of two successive years of poor rainfall is that the rural demand and farm income have suffered.

From an industry perspective, the most significant development of the last quarter took place on September 29 when RBI cuts its REPO rates by full 50 basis points. At 6.75% the RBI's REPO is now the longest it has been in four years and down by 100-basis point this year so far. The implication of this is especially positive for NBFC's that depends on banking sector for funds.

Coming to our company's performance our overall AUM had a marginal increase mainly due to the growth in the new businesses we set up in the last financial year. The gold AUM had a marginal decline mainly due to higher auctions in the old long-term scheme. It is important to note that the quantity of gold price had increased by 2.2% to 57.34 tonnes compared to Q1. It is up 20% compared to a year ago. During the quarter gold price saw a decline up to 5.5% in August though it recovered subsequently. This also has impacted the overall AUM growth in Q2. However, the very fact that there is more gold coming into the system is a healthy sign. This will benefit us when the overall economy picks up.

In the last concall in August and also the one before that in May I have talked about our strategic shift to short tenure gold loan in order to de-risk the portfolio. The important development in this quarter is our entire portfolio has now been moved to new shorter tenure loans with shorter LTVs for longer tenure. We expect that this will make us immune to corrections in gold price, moreover from the next quarter onwards, net yield will improve as auction losses are likely to fall. Manappuram was the first player to initiate this transition to predominantly shorter tenure gold loans to desired gold loans. Our new business has been going well during the quarter. Asirvad our microfinance subsidiary has once again recorded

an impressive performance growing to an AUM of Rs.538 Crores from Rs.418 Crores as at the end of the June quarter. It has extended its presence to five new territories, Madhya Pradesh, Chhattisgarh, Punjab, Haryana, Chandigarh and UP. Asirvad also has benefited by its access to lower cost funds. Cost is taken over by Manappuram. Their credit rating has gone up by three notches to A- from BBB- with an improved access to lower cost capital. The pace of growth in our commercial vehicle finance and mortgage based loans, affordable housing finance and loans against properties has also picked up. Today these new businesses together contribute about Rs.145 Crores to the AUM. Last quarter it was around 90 Crores. We are confident that our new businesses will contribute 25% of our total AUM within the next two years.

Finally, our average cost of borrowing during the quarter declined by 48 basis points and we expect fall in borrowing costs going forward as benefits of the base rate cuts by the banks will be felt in Q3. Most of the borrowings are from the banking system. Thank you. That floor is now open to your questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sameer Dalal from Natwarlal & Stock Brokers. Please go ahead.

Sameer Dalal: I just wanted to ask you had 800 Crores of auctioning of gold. What kind of hit have you taken on these auctions and this number does not seem to be coming. We have always discussed that now we move to shorter tenure loans, the probability of defaults goes down, it does not seem to be translating what you all are saying into actually to the results of the company. So, I just want some mild explanation of this, if you can help it with please?

Kapil Krishan: Basically as I mentioned in my brief this quarter had a 250 Crores in the auction because it was the last bit of auction of the older longer tenure scheme, which we had highlighted in the previous quarter that 5% of the book continues to be the old scheme, and there is also the new book will continue to have auctions. It is not that auctions will come down, but definitely this quarter was higher and we do not expect this level going forward. So, that is the answer. This time it was a one-off increase.

Sameer Dalal: Sir then if I were to ask what I was trying to is now that you have moved to the shorter tenure loans three months and six months, what kind of losses in case of auctions happening, would you take and what was the loss that you took on this 800 Crores of auction. What was the impact that you took in your books for that?

Kapil Krishan: As you know that figure we do not disclose the exact hit, but the combined net yield is what we disclose, and what was the next part of your question?

- Sameer Dalal:** Going forward what kind of impact or hits would you be taking?
- Kapil Krishan:** So going forward there would be a very marginal hit if at all. It would be negligible.
- Sameer Dalal:** So, what would you think would be the fair rate of auctions that you can expect going forward because you know that number, I mean that does not seem to be meaning?
- Kapil Krishan:** The auction figure will continue to what we have been doing earlier. If you remove the increase we had in this quarter it will go back to the normal levels only.
- Sameer Dalal:** I will come back to the queue for more questions.
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from Florintree Private Limited. Please go ahead.
- Jagdish Bhanushali:** We are observing a significant increase in the employee base QOQ as well, so wanted to understand which part of the quarter were they hired and we wanted to know that Q1 was I think the expenses of one off as such in the employee part so wanted to have a sense on that?
- Kapil Krishan:** Actually the employees in the gold loan business has gone up, so the total employees were around 17000, which is compared to around 15900, we had earlier. So there was a slight increase in the number of employees in gold loan business.. There was an increase of around 1000 employees at the consolidated level.
- Jagdish Bhanushali:** Do we see the employee base moving up from here as well?
- V.P. Nandakumar:** May not. I mean the new initiatives there maybe some increase. Now it is around 1000, it may go up by another 200 at the maximum during the current year.
- Jagdish Bhanushali:** So this employee cost should more or less stay for the whole year as well, right?
- V.P. Nandakumar:** It will be more or less stable there.
- Jagdish Bhanushali:** Thank you.
- Moderator:** Thank you. The next question is from the line of Utsav Gugoriva from Investec Capital. Please go ahead.
- Utsav Gugoriva:** Thank you for taking the question. I have a couple of questions. First one basically the additional banks and private banks are declining their portfolio. Sir just want to understand

do we have any plans to increase your market share on the back of that? Number two, just want to understand the impact of gold monetization scheme and sovereign bonds schemes which government launched today. So do we see any changes in the customer behavior on this?

V. P. Nandakumar: About market share yes, when some of the new entrants in the NBFC sector, when they either slow down or back out it is advantageous to us and that will help us in improving our market share. Secondly regarding the gold monetization scheme I do not think there will be much impact. Anyway annually we see an import of around 1000 tonnes to the country and I do not think even the government has an intent to mobilize that much of gold in a year. So the overall impact may not be that significant.

Utsav Gugoriva: Thank you Sir.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you for the opportunity Sir. Sir, you mentioned that in three years this new business comprising of micro finance, CV and mortgage will be about 25% of your overall AUM. So, what kind of individual CAGR you would have assumed in gold as well as the other business to arrive at 25%?

Kapil Krishan: So the gold business, which we have been saying, we expect to grow by 10 to 15% per annum and the others will have a much higher growth rate, but we expect at least around 4000 Crores from the new businesses.

Deepak Poddar: 4000 Crores by FY 2018 and that will majorly be from the microfinance because it is the largest I think.

V.P. Nandakumar: Microfinance can be half of that.

Deepak Poddar: Half of that, I understood. Currently in terms of ROA, our gold loan ROA is currently at about 2% while microfinance and other business might be at 4% and above, so is there any matrix or is there anything that we are working on that over the next three years this individual ROAs is also we are looking to improve individually both for gold as well as for the other businesses?

Kapil Krishan: On a consolidated basis we are expecting at least 2.5% ROA and as I mentioned now our net yield should also go up in the next few quarters so that will benefit our ROA straightaway but even on a sustainable basis 2.5% is what we expect to be kind of maintained?

- Deepak Poddar:** This is what we are looking over the next three years or that is?
- Kapil Krishan:** That is the current expectation. We do not give a formal guidance but just to help you get some kind of idea.
- Deepak Poddar:** My final question is currently we are giving about 0.45 paise dividend per quarter so do we follow any particular dividend policy?
- V. P. Nandakumar:** It may be continued. It is Re.1.80 paise or Rs.2 is share in a year is not bad. It may be continued.
- Deepak Poddar:** It may be continued. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** I have like two to three questions. Sir, the first one is I can see that the yields have steadily come down from in the last four quarters, so in my model in September 2014 that is last year the yield was close to 23% to 24% and now it is down to something like 21% to 22%. So have we changed our card rates?
- Kapil Krishan:** These are the net yields you are seeing and when there is interest reversal as you know the net yield comes down. So that is why you are seeing slight decline in the last two quarters.
- Digant Haria:** Sir, that means that from the next quarter this number should actually go up because most of our old portfolio is out and in the new portfolios we expect even if there are auctions, there would not be any interest reversal kind of a situation, right?
- Kapil Krishan:** Exactly right.
- Digant Haria:** In the card rates the rates at which we are lending at our branches, they have been steady, right from 14% to 24%. That was our band last quarter also and that is our band this quarter also or have we changed the interest rates?
- Kapil Krishan:** There has been no major change.
- Digant Haria:** Somebody had asked this question before, what is the number of employees in our gold loan business?
- Kapil Krishan:** 17000.

- Digant Haria:** 17000 is for the gold loan and last quarter this number was 16420?
- Kapil Krishan:** around 16000 actually.
- Digant Haria:** So, it has gone up by 1000 employees in this quarter itself?
- Kapil Krishan:** I have the exact figures. It was 15900. Now it is 16900.
- Digant Haria:** This is the reason for the increase in employee cost because when I look at the employee cost, they used to be in the range of 75 Crores to 78 Crores, last quarter was 97 Crores because we gave some incentives to our employees, but again for this quarter it was close to 98 Crores, so this increase should be treated as permanent increase?
- Kapil Krishan:** Yes it will remain at this level now.
- Digant Haria:** 98-100 Crores per quarter kind of a runrate?
- Kapil Krishan:** Yes.
- Digant Haria:** Last question is on the general growth trend so we have seen the last quarters we had seen very good growth in the loan book, so this quarter I obviously understand some part of growth is not coming because of the auctions, but how are you seeing the demand environment. Is it quite weak or do you think that we can still manage like a 10% kind of a growth.
- V. P. Nandakumar:** Our collateral, gold tonnage has grown from 48 tonnes to 57.34 tonnes which is a good growth actually, but we did not grow to that extent because the gold price has come down, so the absolute number is lower. That is the only reason. So the demand is there and the demand will grow at this level. This is to our expectation.
- Digant Haria:** How are you seeing the competition because when we find two different trends when we watch the market that the largest player is reducing rates, but the other players are getting out of the business, shutting down branches, not really focusing, so what is your sense on how the competition is there for us in the market?
- V. P. Nandakumar:** In a market like India around 1000 tonnes are imported and most of these are going into the family gold, so the demand will be always on the rise, now due to the sluggishness of the economy there maybe slight decline in the demand even in spite of that we could grow and compared to our competition also our growth rate is not bad as far as gold collateral is concerned. As mentioned earlier our average LTV has been brought down to 67.5%. The intention is to insulate the portfolio from the price volatility. The intention is to grow the

overall book for which we have diversified and the new businesses are going as per our expectation and it is good.

Digant Haria: Lastly is on the auction number from next quarter should be in the range of 300 to 500 Crores or the usual NIMs that we saw?

V. P. Nandakumar: That is our expectation.

Digant Haria: Thank you so much

Moderator: Thank you. The next question is from the line of Anand Jhavar from JM Financial. Please go ahead.

Anand Jhavar: Sir, just wanted to get some sense on we have seen these past two three years you write out the difficult times and now the industry has stabilized. I know you do not give guidance, but when can we see the aggressive expansion of branches if at all in the coming quarters, because obviously the branch numbers have stabilized and lot of cost optimization has happened over the period that is number one. Two, what is the synergy that you would like to see between your other diversification businesses especially the microfinance and the gold loan because obviously microfinance has a huge opportunity where both the customer segment could be overlapping. So your sense on that?

V. P. Nandakumar: Regarding branch expansion and its aggression all depends upon the economy. When the economy turns bullish, the demand will pick up accordingly and we will also sphere our expectation. So the second part of your question is synergy with microfinance. There is a good synergy. This microfinance they are of course at the bottom of the pyramid through their self-employment and other sources, which are generated from the launch, they have taken through the microfinance. They will be able to climb to the next level, which will definitely help the gold loan segment.

Anand Jhavar: Sir, lastly there are so many bay payment-banking licenses given out and obviously banking space is becoming more competitive than ever, the whole landscape is continuously changing and being disruptive. Manappuram has to obviously come ahead of the competition since you have such a good network holding. Any thoughts on the new banking licenses issued and going forward they would be offering at lower rate than possibly Manappuram simply because the cost of borrowing would be low, of course your thoughts on how to navigate this disruptive innovation in this landscape?

V. P. Nandakumar: Yes there are new banks that have also entered the fray, so they are in operations but we feel like it will take some time for them to branch out or branch out their operations coming to the remote corpus. So we are working in the semi urban and rural markets mainly and in

the gold loan segment what is really needed is the branch network, which we already have. To create that level of branch network may not be that easy for such banks and in the new scenario, where they leverage mode of technology they will not go for a larger branch network. The other thing is some of the recent entrants have backtracked. So the scope is competition will be curtailed at least at this level, so I do not think it is a big issue.

Anand Jhavar: Just last question is would you sense the second half of the year would be better than the first half from your sense because generally that has always been the case?

Kapil Krishan: As we said that the yields will go up now because the entire book, you know we will not have interest reversals on the entire book, so we definitely expect a good pick up in the next half, and I just wanted to add one more point on the market scenario, despite higher auctions on a quarter-on-quarter basis our volume which is the gold tonnes, I just wanted to draw your attention again is up to 2.2% and on a year-on-year basis it is up 20%, which shows that there is a huge addressable market for gold loans, which we are able to get with us.

V. P. Nandakumar: One more thing is during this last quarter our new customer base has gone up by 3.5 lakhs, which is an indication that the market is growing, and we have a good collateral growth also.

Anand Jhavar: Thank you. That is it from me.

Moderator: Thank you. The next question is from the line of Rajiv Agarwal from Sterling Cap. Please go ahead.

Rajiv Agarwal: Thanks for the opportunity Sir. I want to know what kind of spreads, we could expect within the next two quarters?

Kapil Krishan: We do not give formal guidance on these figures.

Rajiv Agarwal: But do we feel it to improve from 12.4%, right?

Kapil Krishan: Yes.

Rajiv Agarwal: Sir, we were planning to raise 2000 Crores from NCDs, so would that be replacing the bank borrowings or would they be used for fresh borrowings?

Kapil Krishan: This is just an enabling provision because there is a new rule that these needs shareholder approval and depending on where we get lower cost funds, we will be raising and right now

banks are giving us better rates and so is commercial paper for the shorter tenure loans, so this is just an enabling provision. We will have to see how much we raise finally.

Rajiv Agarwal: Thanks.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: Firstly in terms of again coming back to this auction, what was the quantum of gold auction, so in terms of amount it was 802 Crores but in terms of the quantum? **In terms of this new scheme** 60% LTV, so how do you see the LTV per gram differential between this three to six months tenure loan and say 12 months. So when we look at exactly in terms of rate per gram what is the differential between those two?

V. P. Nandakumar: LTV for three month product is around 75%.

Kunal Shah: Per gram how much would that be?

V. P. Nandakumar: What you wanted?

Kunal Shah: Per gram what we normally see at branches, so this is like 700 per gram or 1800 per gram how it is?

V. P. Nandakumar: It depends upon the price.

Kunal Shah: So, today may be at the current rate?

V. P. Nandakumar: Percentage wise that will be given, but I can tell you the percentage. For three month product it is 75% and six months it will be 70% and one year it will be 60%. This is the percentage of LTV.

Kapil Krishan: I will just give the auctions quantum first, it was 4.2 tonnes and LTV for the three months loan is 1829, six months is 1709. There are various schemes, I am just giving you some of these schemes so the nine months is 1589, and the twelve months is 1469.

Kunal Shah: Maybe on the incremental basis how would be the distribution between the three, six months and one year? Broadly when we look at it now this skewness is moved towards the shorter tenure?

Kapil Krishan: Roughly half the disbursements are in the three-month scheme.

Kunal Shah: So, when we look at that and say that the LTV per gram which comes today so that is almost like 1661 when I today look at it in terms of the gold AUM and say AUM per tonne so that is 1661, okay I think the dip which is there is mainly on account of say the auction, which would have got out because I think the average price of that is somewhere around 1900 which would have gone out of the portfolio so then given then that three months is half and that is at 1829, so should we see this LTV per gram moving up?

Kapil Krishan: The component on the three months has been fairly steady actually. So the average LTV is coming down more because we have lowered LTV on the longer term products, which is why our average LTV has been coming down. It is at around 67%.

Kunal Shah: So average is coming down to somewhere around 67%.

Kapil Krishan: 67%, yes.

Kunal Shah: I think there would be some component of auction as well when we look at this?

Kapil Krishan: This is the closing figure after the auction for the quarter?

Kunal Shah: That is what, so may be as compared to the last quarter and this quarter the impact would also be on account of auction, because when you sell at 4.2 tonnes of gold with 802 Crores so that suggests what we have recovered is somewhere in the range of 1900 or so, which would have been there in our last quarter's portfolio and it would have gone out in this quarter? So the last quarter maybe 1723 and this was one proportion which has now gone out, so that is more the auction I think the LTV per gram is coming up but as you are highlighting maybe the auction should stop or may be it may not be at such a higher rate then I am just looking at the trend of this LTV per gram which can lead to a relatively higher loan growth that is what the entire purpose is?

Kapil Krishan: That is right. Because it would also depend on the mix and as you know our product schemes are somewhat kind of dynamic, so it depends on the market conditions we can change the product LTV during the quarter also.

Kunal Shah: Thank you.

Moderator: Thank you. We have a follow on question from the line of Sameer Dalal from Natwarlal & Stock Brokers. Please go ahead.

Sameer Dalal: Just wanted to know three months product that you are talking about this three months, and six months, I just do not understand. If in case you do not receive the payment at the end of

three months, how long before you close out the loan and are able to dispose off the assets, in the three months and the six months?

Kapil Krishan: Basically as you know the collaterals is in our hands and it is up to us if it is overdue we are fully entitled to auction it and we give notices to the customers when they do not pay on time and then basically it is auctioned in about three to four months. As you know five months is the norm for NPA, so our endeavor is to not to go into too much of NPA.

Sameer Dalal: Sir, is it safe to assume that after three months if the money does not come in which is the period of the loan another three months at best would be the holding?

Kapil Krishan: Around three to four months as I said.

Sameer Dalal: Three to four months, it will not extend beyond and that is for the three months.

Kapil Krishan: That is the policy.

Sameer Dalal: For the six month product and the one year product?

Kapil Krishan: Yes that is right.

Sameer Dalal: Fine. Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Gupta who is an individual investor. Please go ahead.

Gaurav Gupta: Thank you for taking my call. I have one question with respect to some profitability ratios. From the presentation I can see that our cost of funds that is going down quarter-on-quarter basis and it is nearly 11.1% right now whereas my return on equity is also going quarter-on-quarter downwards and it is now 9.5%. So if I can assume from this that my lenders are getting much more than the owners of the company, so do we foresee in future that then owners will be earning more than the lenders. Any view on that?

Kapil Krishan: The lenders, our NIM is actually is a little over 12% and the cost of funds is 11%.

Gaurav Gupta: Yes, cost of fund is 11.1% as per this quarter and within that same presentation slide, slide #8, it is showing that return on equity it is 9.5%. So return on equity is nothing but my earning for my owners, right?

Kapil Krishan: Yes.

- Gaurav Gupta:** So that is lower than the cost of funds. Cost of fund is my money paid by the company to my lenders.
- Kapil Krishan:** We have to keep a post tax cost of funds, secondly the ROE has been a little bit subdued in the last two quarters and as I said it will go up, so this is not the sustainable rate. The ROE will be much higher in the next two quarters.
- Gaurav Gupta:** Second thing is on the same lines, do we internally calculate any cost of capital for us? Like we calculate the cost of funds and we are displaying with each and every presentation do we calculate any cost of capital as well?
- Kapil Krishan:** Those are all internal matrix that we present to the board only.
- Gaurav Gupta:** I am not just asking the exact number, but if you can just throw some light that if our return on capital is greater than our cost of capital or not?
- Kapil Krishan:** Yes, it is because there is a positive kind of return here and as I said we have to compare with the post tax cost of funds if you look at that it is definitely greater.
- Gaurav Gupta:** My second question is with respect to my operational expenses to my assets under management so from last two quarters it is quite high as compared to the previous three quarters, so any guidance by when we can see that these are returning to our normal level below the 8%?
- Kapil Krishan:** See the opex to AUM was down marginally in Q2 and having said that we expect it to remain in this range actually.
- Gaurav Gupta:** That is 8% plus you are saying?
- Kapil Krishan:** Yes.
- Gaurav Gupta:** My last question is with respect to return on assets on the other businesses in which we are venturing out since gold loan we are having some 2.2% of return on assets what is the current return on assets for my microfinance and other businesses like loan against property and commercial vehicle finance business?
- Kapil Krishan:** The ROA on the microfinance is over 4% and the gold loan in just last two quarters has been subdued figure, but that will also now pickup in the next two quarters and the other new businesses are new right now. They are not contributing positively right now, but put together all the new businesses has made around 4 Crores contribution to the PAT. So

overall there is a benefit from the new businesses, but some of them, which have been newly set up, will take some more time to start contributing.

Gaurav Gupta: What is my CAR/capital adequacy ratio for microfinance business?

Kapil Krishan: Around 20%.

Gaurav Gupta: Do we foresee that for my gold loan business it will come down just to boost my return on equity?

Kapil Krishan: See currently we have 25% capital adequacy. We may if we infuse around 100 Crores into the microfinance it will come down by only 1% because we have around 10000 Crores book. So we are very comfortable. As you know we can go till 15%. We have pressure on capital adequacy for investing in the subsidiaries right now.

Gaurav Gupta: My question was in a different way like as per RBI, minimum stipulated is 15% whereas from the last few quarters we are maintaining even more than 25% or 25% plus whether it is 27% or something like that, so just to increase may be to optimize my returns in terms of return on equity if I am bringing that down let us say near about 20%, so my return on equity can be increased so are we planning in that direction something like that?

Kapil Krishan: Yes, absolutely that is the goal, which is why we have set up the new businesses and the overall gearing level will be much higher in the next two to three years.

Gaurav Gupta: Thanks a lot. That is all from my side.

Moderator: Thank you. The next question is from the line of Jai Prakash from India First Life Insurance. Please go ahead.

Jai Prakash: Good evening Sir. Sorry I joined a bit late. Just wanted to understand the auction process. When it gets kicked in and when you start auctioning? What is the time line and all?

Kapil Krishan: So once the loan is matured we send written notice to the customers, we have to give advertisement and then we have to have court appointed auctioneer then it has to first happen at the taluk level, if it does not get auctioned there, it goes to the next level, which is the regional and the head office and the overall process takes around 60 days.

Jai Prakash: So these loans are basically not NPAs these are the maturity loans, right?

Kapil Krishan: Yes, NPA will happen after five months, 150-days but we in our process is such that within 60-days itself we can auction. Now if the customer has paid interest over 50% then we give

him some more time because it is anyway in the money and it is a good loan. So while we put the pressure, the pressure is a bit less if he has paid interest.

Jai Prakash: Sir this 800 Crores basically are the fresh loan, not the NPAs, the maturity is matured and the customer did not come to get the gold back and so you auctioned it?

Kapil Krishan: Yes.

Jai Prakash: So, are you not seeing this as a risk? What is the reason for these kind of 800 or 500 kind of numbers Sir?

Kapil Krishan: These are in the range of 4% to 5% of the disbursement only. It is not something which is very large and that is part of the collection of interest process. If the customer does not pay interest we collect it through the auction process. It is a business as usual procedure for any lending business.

Jai Prakash: Second question on the employee side, 75 to 80 Crores kind of runrate and now we are moving to 98 Crores. Last quarter was an aberration, but what is the reason? You were mentioning it can continue at the same levels? So is the new salary hike you have given?

Kapil Krishan: We have compared to a year ago, it is up because we have increased the incentives that we give to the sales staff to push growth that is why the increase has come.

Jai Prakash: Thank you.

Moderator: Thank you. The next question is from the line of Gopinath Reddy an individual investor. Please go ahead.

Gopinath Reddy: Thank you Sir. My first question is regarding the 1000 employees to the gold loan business and there is no branch expansion. Does it mean that we are adding people to the existing branches and what is the purpose of it? Is there any specific reason why we are increasing the number of employees?

V.P. Nandakumar: We have added some field staff that is for sales as well as collection.

Gopinath Reddy: The next question is regarding what is the write off that we have taken this time on the principal amount because of the heavy auction that happened this quarter?

Kapil Krishan: We have no principal loss.

Gopinath Reddy: It is all interest plus?

Kapil Krishan: Only interest reversal.

Gopinath Reddy: The next question is microfinance business in this we are trying to grow aggressively that is good. On the field, there are several other microfinance companies who are all trying to grow aggressively. Are we sensing or is it happening that we are over lending or we are lending to the people whom the other companies who are also lending. That is a risk that happened in Andhra Pradesh some time back. And is there any chance of the same thing happening in Tamil Nadu or anywhere else where overlapping of microfinancing to the same group of people are people in different groups taking money from different microfinance companies are you sensing that risk happening anywhere?

V.P. Nandakumar: Post Andhra crisis as you know there are lot of regulatory changes that have come in the microfinance industry. There is a SRO in place. Lot of things have happened. Now the microfinance industry has stabilized. As per regulation there is a cap how much loan can an individual get, similarly there cannot be two loans for microfinance customers, so all these are regulated now. So we do not see any risk there, and the demand from the bottom of the pyramid is also increasing. So the microfinance industry can penetrate further, if we take the All-India level there is a good potential for the growth of microfinance industry.

Kapil Krishan: Just to add I mean there has been several steps where RBI has taken and one of the other steps is that now every loan has to have a credit bureau validity. So if a customer is a defaulter anywhere else, he will not get a loan from a microfinance company.

Gopinath Reddy: That is fine Sir. The risk is before they become defaulters. Usually the thing happens this way in villages, I am a villager I see this micro financing happening very much. These guys, people try to take loans as if it is something they are getting freely. A lot of wherever there is a possibility of taking a loan, they will try to take it this way if at all they are taking from two to three microfinance companies, it happened very much right before my eyes in Andhra Pradesh. They take from as many microfinance companies as possible and then they all stopped paying. That is why I am worried and I just asked.

V.P. Nandakumar: See the microfinance industry in general statistics, NPA is well below 1%, they have an aggressive provisioning policy as per the regulation is concerned. So the microfinance industry in general in the country is doing well. It has been doing well for the past 10 years, 15 years, but for politically triggered Andhra crisis. It was not triggered on account of anything else, but political.

Gopinath Reddy: That time it was influenced by politics.

Kapil Krishan: The ticket size is very small, 15000 to 20000 and the collections are sometimes fortnightly and monthly so every installment size is very reasonable. So that is also one reason and the

principal at risk is hardly 3-basis points actually. It is very low and as I said 100basis points is the standard provisioning norm, so these are all the steps that have been taken to strengthen.

V.P. Nandakumar: One important thing is the joint liability model. In the microfinance industry the loans are granted only to women. In this business model, the track record is excellent.

Gopinath Reddy: Exactly the risk is there Sir. Actually the same group they will not take from two companies. The risk is they form into different groups, the same women gets into different groups and each group they take as if it is a different group they take from different, different microfinance companies, ultimately the groups themselves among them will overlap so that each person gets from more than one company that was happening last time. I do not know how it is happening right now.

V.P. Nandakumar: Henceforth it cannot happen. An individual cannot borrow from more than two companies. Only two loans are possible at a given point of time. There is a credit bureau check then MFIN has its own rules so now microfinance industry seems stable. We also feel like that.

Gopinath Reddy: Next question is related to this you were saying that we have moved completely towards the short-term loans and again in another statement, my understanding might be very much wrong, you are saying that three months loans are 50% and the remaining loans are for nine months and one year. What tenure you have considered to be the long-term loans? Is it above one year?

V.P. Nandakumar: This loan what is insisted is the three months is the contracted period. Within 90 days after the maturity what is expected is they need to come and if they want to redeem they can redeem, if they are not able to redeem they have to reset the loan to the days of LTV and after paying the full interest and making that to the current LTV they can renew that as a fresh loan. Around 40% of these loans are not simply rolled over these are reset to the new LTV and remitting the full interest these are converted as a new loan. So this may go for, short-term durations also. So for a customer he can have a one year loan but only thing from time to time he needs to remit interest, which is safer for him because that will very suitable to his cash flow. It is good for the company also.

Gopinath Reddy: Well said Sir.

Kapil Krishan: We are calling it shorter tenure products and we are still doing 12 month loan, but for short-term we are giving 75% LTV and for one year we are doing 60% LTV, which is actually new product.

- Gopinath Reddy:** Understood clearly. Now you are saying that we are out of the old long-term loans, we do to even have nine months or six months continuously interest not paid loans, we are out of those stuff, is it that we have everything whatever is there remaining?
- V.P. Nandakumar:** It is not like that. We can still continue to give nine months, 12 months loan, earlier we were granting a 75% LTV for such loans and now for one year products we have reduced the LTV by 15% to 60%.
- Gopinath Reddy:** So we are making sure we will not have any interest loss?
- V.P. Nandakumar:** We will not suffer any loss even if it has to be auctioned provided the price does not fall by more than 10% etc.
- Gopinath Reddy:** Last question, we have been continuing with high ROE of some 25% around and we are trying to bring it down as much as possible in the next two to three years. That is clearly understood, but when we have such a high ROE and when the stock price is in the market running at a very low price than the book value, is it not prudent to go for a buyback and if it works that way in that particular price that is trading at now, the IRR of buyback itself will be very good for the company, isn't it?
- Kapil Krishan:** NBFCs cannot. You cannot use debt to do a buyback and since NBFCs are generally leveraged it is difficult for us to do that.
- Gopinath Reddy:** I do not that Sir. Thank you.
- Moderator:** The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead.
- Rahul Ranade:** I just missed the figure for the interest reversal on 800 Crores auction?
- Kapil Krishan:** We do not give that figure. We just disclose the net yield actually which is the blended yield after the interest reversal.
- Rahul Ranade:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I hand the floor over to the management for closing comments.
- V.P. Nandakumar:** Thank you for joining us. The call was good. We are hopeful we could answer the questions also to your comfort. So that is all.



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Moderator: Ladies and gentlemen, on behalf of IDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.