



## “ManappuramQ4 FY-15EarningsConference Call”

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IDFC SECURITIES LTD.**

**MANAGEMENT: MR. V.P. NANDAKUMAR – MD& CEO, MANAPPURAM  
MR. KAPIL KRISHAN – CFO, MANAPPURAM**

**Moderator:** Ladies and gentlemen good day and welcome to the Manappuram Q4 FY15 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. I would like to hand the conference over to Mahrukh Adajania of IDFC Securities. Thank you and over to you Ma’am.

**Mahrukh Adajania:** Good evening. We have with us the management of Manappuram. We have with us Mr. Nandakumar – MD& CEO and we have with us Kapil Krishan – CFO. I would now like to hand over the conference call to the Manappuram management team. Over to you sir.

**Kapil Krishan:** Thank you Mahrukh. Ladies and gentlemen welcome to Manappuram’s Q4 FY15 investor Conference Call. For the year ended March 2015 our consolidated AUM was Rs. 9593 crores which was an increase of 17.5% year-on-year. Our total consolidated income from operations was Rs. 1986 crores compared to 2100 crores in FY14. The consolidated profit after tax and after minority interests was Rs. 271.3 crores for the full year which was 20% higher than the level of 225.9 reported in FY14.

Coming to the standalone quarterly numbers – our closing book stood at Rs. 9269 crores which was 5.1% higher on a sequential basis. Our book has grown consistently in every quarter of FY15. During the full year our gold loan book grew by 1106 crores compared with a decline of 1798 crores in FY14. This indicates that our effort to reach out to customers has borne consistent results. Our average gold loan AUM during the quarter was Rs. 8756 crores. The auctions during the quarter were 224 crores and new book which we added by reaching out to new customers was Rs. 668 crores. In the whole of FY15 we had a new book of 2256 crores compared with a level of 510 crores in FY14. This metric also indicates that our efforts to reach out to customer is what has resulted in the growth in the book. Our average LTV stood at 70%, ROA for the quarter was at 2.63% and the spread was at 12.87%.

The new businesses which we set up and acquired during the course of FY15 are also gaining traction. As earlier announced we completed our acquisition of Asirvad Microfinance in the middle of February. Asirvad reported a closing AUM of 322 crores, it has around 130 branches and reported an ROA of 4% for the year.

The mortgage finance business that is home loans and loan against property had a total book of Rs. 29.4 crores and the commercial vehicle business had a book of 15.4 crores as at the quarter end. Each of these new businesses are run by dedicated professionals with relevant industry experience right from the top management, right down to the branch level.

Gold loan disbursements continue to be strong during the quarter at Rs. 7163 crores compared to Rs. 5966 crores in Q3. We added 2.6 lakhs gold loan customers in the quarter. The total number of live customers was 17.47 lakhs a 4% increase Q-on-Q. Our gold holdings increased by 5.8% to 53.13 tons. This is in line with the growth rate of the AUM.

Financing costs continue to decline for us and declined 3.2% during the quarter to Rs. 219 crores compared with Rs. 226 crores in Q3. Our average cost of borrowing during the quarter was 11.96% a 24 basis points Q-on-Q decline and a 74 basis points decline year on year. Only 5% of our bank borrowing benefited by the base rate cut in Q4 and as you are aware many more banks came forward after March so around 40% our bank borrowings will benefit from an average of 20 basis points base rate cut in Q1 FY16. Our long-term credit rating has also been upgraded to AA- category by CARE during the quarter. Our employee cost and administrative cost were mostly stable at Rs. 79.5 crores and Rs. 76.1 crores respectively. Depreciation cost declined by 1.98 crores. The overall number of branches were stable at 3293. We are in various stages of relocating around 300 branches to higher potential areas which will result in further efficiency improvement in the coming quarters.

Provisions and right-offs during the quarter were Rs. 7.7 crores, gross NPA was 1.2% of AUM. As you are aware most of the gross NPAs relates to accounts that are regularly servicing interest though the loans have not been closed. Loss assets due to thefts, spurious gold etc amount to 0.9% of AUM. This shows the robustness of our internal risk management systems. The company's consolidated net worth stood at Rs. 2632.8 crores as at the quarter end, book value per share was Rs. 31.3. The board approved an interim dividend of 45 paise which takes the full-year dividend to Rs. 1.8% per share. Capital adequacy was 25.65%, total borrowing stood at 8392 crores, 82% of our borrowings are from around 32 banks. I now request our promoter and Managing Director Mr. Nandakumar to share his views on our overall business.

**V.P. Nandakumar:**

Thank you Kapil and thank you all for joining us in this con-call to discuss our Q4 results. Gold prices were stable during the year moreover there was stability on the risk front too. We are also now back on the growth path after a period of decline on loan book. We have made our business more resilient to gold price volatility; this has been achieved by following tighter risk management practices. We launched new shorter tenure gold loans in June 2014. Over the course of years we have succeeded in shifting about 75% of total gold loan for portfolio to the shorter tenure products. As this goes towards reducing vulnerability to fall in gold price the full benefits of the shift are likely to accrue from Q2 of the current year. Interest collection has been given more focused attention and the system of regular periodical collection of interest has been introduced across the industry. Our improving credit and risk profile enabled us to lower our cost of earning significantly. All this enabled us to report 20% growth in profits in FY15 year-on-year.

In other developments Manappuram has completed the acquisition of Asirvad Micro-finance, a seven-year-old company with an AUM of Rs.322 crores and a presence mainly in Tamil Nadu, Karnataka and Kerala. We intend to expand the business to 4-5 new states. The micro-finance sector has been growing well, a stable regulatory environment in place. Prospects for future are bright as a subsidiary of Manappuram Asirvad will benefit by access to lower cost of funds. In the coming quarters we expect that micro-finance will contribute lot to the growth of our company along with other new businesses. We have made good headway in the launch of

mortgage based loans, housing and loan against property and commercial vehicle business. Leadership teams are almost fully in place and we have already set up our presence in the marketplace. The combined AUM of this business was Rs. 45 crores as of March 2015. We expect further pickup in the current year. In short we are on course to moving away from gold to what we would call gold plus. I now throw the floor open to your questions. Thank you.

**Moderator:** Thank you very much Sir. Ladies and gentleman, we will now begin the question and answer session. We have first question from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

**Kunal Shah:** Firstly in terms of the headcount that is going up by almost 1000 so is it more towards any other businesses maybe on the housing finance CV and so, is the recruitment for that or we have done it for the Gold financing business?

**Kapil Krishan:** See Kunal these recruitments are largely a junior level and branch level because we had linked the staff strength to the volume of the business in each branch so as we are seeing some amount of rising volumes in line with that we have just added some staff.

**Kunal Shah:** So this is entirely relating to gold loan?

**Kapil Krishan:** In gold loans.

**Kunal Shah:** Sir also mentioned regarding the short tenure loans and that is getting reflected even in terms of repayment trend so I think when we look at repayment for this quarter its slightly higher at 75% of the outstanding AUM as compared to that of 60-65 so what is the nature, how long tenure, this is three months, one month how is this new product wherein say the 70% of this customers have shifted?

**V.P. Nandakumar:** We have products of two different tenures now to three months, six months, nine months, and one year so the shift is towards three months, six months and nine months from one year.

**Kapil Krishan:** Just to add even the new 12 months product has got a LTV only 65% so that is the degree of the risk we measure is much higher now in of the new products put together.

**Kunal Shah:** And in three months how would be the LTV differential between three months and 12 months product so per gram when we look at it?

**V.P. Nandakumar:** 3 months it is 75% which is a maximum permissible LTV as per regulation.

**Kunal Shah:** And per gram it would be.

**V.P. Nandakumar:** For one year it is 65% so there is a differential of 10%.

- Kunal Shah:** And how about the interest so after this three months I think there was a product wherein say customer had to come every month and repay some proportion otherwise the interest component used to go up so that was with respect to this three months product.
- V.P. Nandakumar:** No it is not like that. The 3 months the rate of interest is the same, anyway we have made several facilities to the customers to pay the interest easy through online payment system whereby the customer is now able to pay of interest or whatever is towards principal online so he can do that in 24 hours, 365 days. So this is helping the customer easing the repayment process so that helps the company and improving the asset quality.
- Kapil Krishan:** Specific slabs keeps changing so while the LTV for three months will remain same, the interest rate specific products those are dynamic actually so they may keep changing.
- Kunal Shah:** No the only thing was a said customer I think that slab of interest was actually changing I don't remember whether it was on monthly basis or on a quarterly basis but maybe so. Suppose if it was 1.5% if he doesn't pay within one month or three months that used to go to 1.75% per month and I think so is that the case with three months product as well or this is only for the one year product.
- V.P. Nandakumar:** No the three months product the first slab is for three months then for the next three months it changes every quarter it goes up. For other products also it is similar, long tenure products also.
- Kunal Shah:** Thank you.
- Moderator:** Thank you. We have next question is from the line of Digant Hariya from Antique. Please go ahead.
- Digant Hariya:** Sir this quarter our AUM growth has been quite strong at 5% but the interest income has been substantially lower so have the yields come down for this quarter and if yes have we reduced the overall lending rates or is it more the customer preference towards the lower lending rates that our yields have fallen?
- Kapil Krishan:** The average book has grown at a slightly lower percentage if I compare with the average of the previous quarter so that has grown by around 1.2% and the net yield is marginally lower than the previous quarter though the gross yield remains the same.
- Digant Hariya:** So it's more of the back ended nature of growth and next quarter we should again see the yield go up because when we calculate the yield it just comes to something like 21.7% which is a 200 basis points decline on a quarter-on-quarter basis.
- Kapil Krishan:** See that is a net yield that you are saying and the gross yield remain stable actually so the net yield have come off so if you just compared with the average book it will come off by around 100 basis points which is there in the presentation that we have uploaded and as you know as

we mentioned the older product that was there till June 14, after June 14 we launched the newer shorter-term product and the full benefit of that we should expect from Q2 onwards.

**Digant Hariya:** And secondly is in case of your borrowing costs, you said only 5% of your borrowings benefited from base rate cuts but when I look at your absolute borrowing cost that has gone down and your absolute borrowing amount has gone up so I just could not understand this.

**Kapil Krishan:** So I will explain it, till March only two banks United Bank and Union Bank have reduced the rates and they constitute 5%, after March many more banks have cut rates like SBI and ICICI and the others so that constitutes around 40%. We have been getting interest rate reduction, the point was this without the base rate cut actually because of our improving risk profile and improving credit rating so that has been recognized by the bankers and that's how we have been able to lower the cost of fund. And as far as the borrowings we had paid around 100 crores for the Asirvad acquisition and the average book has also gone up so both these combined would have resulted in increase in the average borrowing.

**Digant Hariya:** So the borrowing which you have shown in the presentation, the liability mix so that is the consolidated one or it's a standalone one as it was always in the past quarters?

**Kapil Krishan:** It would be the standalone.

**Digant Hariya:** I am referring to slide 15 of the presentation.

**Kapil Krishan:** Yes standalone.

**Digant Hariya:** And on this the shorter tenure products how has been the reaction of our old customers because I believe 50-60% of our customers are repeat customers and they over the last few years they have been used to a product which is at least a 12 month product so is it that they find it difficult to accept this, how our customers reacting to this new product?

**V.P. Nandakumar:** Customers remain more or less neutral because if we analyze the average life of the loan is around five months which here also even if the product is three months we used to give another three months for redemption or remitting interest and mark to market etc. so the average customer doesn't face much difficulty so the advantage for the company is at the not been for a period of one year then in case if the long terms NPA it takes a longer time for realizing by selling through auction. Now for the short-term product as far as the company is concerned it is in a advantageous position because after three months if at all any price decline is there we can realize our principle and interest by selling these in public auction at an earlier date this is the advantage for the company. As the average duration of the loan is around 5.5 months or 6 months the average customer is not very much affected with this. Again if he has come and remitted the interest he can again roll over, only thing then he has to mark to market as far as the LTV is concerned that's all.

- Digant Hariya:** Sir our gross yields are currently around 23% and if we look at our largest competitor I think they have significantly reduced their lending rates in the last two quarters and in fact this quarter they claim to be the lowest rate lenders in gold space so right now we are not seeing any pressure on the yields or should we also start raising some pressure going ahead?
- V.P. Nandakumar:** There are two things here, one the average ticket size is around 30,000 and the average tenure is around five months so it's a small ticket shorter tenure loan. The customer normally looks at the convenience, 1% or 1.5% difference is that all there it will not affect the customer's choice very much. I don't think the reduction of 1% or 1.5% for a shorter tenure product is not going to affect our business.
- Moderator:** Thank you. Next question is from the line of Gokul Maheshwari from Allard Partners. Please go ahead.
- Gokul Maheshwari:** The increase in AUMs you attributed more towards your sales efforts, is there any underlying improvement in the economy which you would attribute that to?
- Kapil Krishan:** It is obviously very difficult to really quantify the split up between how much is because of the economy and our efforts but my guess would be that it is more to do with our own efforts so that's what we think on the ground, reaching out to the customers is what has made all the difference.
- Gokul Maheshwari:** In case if there is sequential improvement of the overall economic environment how would you see the AUMs panning out for FY-16?
- Kapil Krishan:** We are just going by our own efforts and I said it's very difficult to really differentiate on how much is contributed by the economic and our own efforts. So obviously we are reaching out and making deeper penetration into the market and that is what we will continue doing our own efforts. And as you know the unorganized sector is still 4x larger than the organized sector so there is a huge potential and especially if we go to new states and new areas which we are planning to do by relocating our branches that will also contribute to significant amount of growth.
- Gokul Maheshwari:** In the last three quarters the additional number to the AUMs is around 300 to 400 crores, this quarter being like 450 on a net basis. Would you expect this number to be sustainable for the next 3 to 4 quarters?
- V.P. Nandakumar:** Yes, all our efforts are to see that the same growth momentum is maintained.
- Gokul Maheshwari:** And just on the second thing, on a three months product apart from the fact that it protects you from gold price volatility is there any other P&L or a balance sheet impact which is very different from your old traditional product?

- V.P. Nandakumar:** No we don't think so. As I mentioned just now the average life of the loan is around 5 or 6 months so for the average customer it doesn't make much difference.
- Gokul Maheshwari:** Can you just give an overview of the competitive environment in the gold loan market new players coming in or versus banks is there any changes on a ground which you see?
- V.P. Nandakumar:** Yes the changes are there but the positive for companies like us because we see the withdrawal by many newer NBFCs entrants and other aggressive banks who are doing gold loan during the last couple of years; we don't see that aggression nowadays. And also if you look at the gold import it remains stable around 1000 tons in year average. So overall the competition in the market we hope will not affect us very much.
- Moderator:** Thank you. We have next question from the line of Viral Jain from SG India. Please go ahead.
- Viral Jain:** I have related point to the previous question is what were the efforts which were done differently versus previous three quarters which has led to such a spurt in disbursements? I understand that it's hard to ascribe any particular reason between improvements in the macro sentiment which led to increase loan demand in the economy versus internal efforts which were being taken but the organization is working towards increasing loan book for quite some time but it has resulted in dramatic improvement in disbursements in this quarter. So first question is around what was done differently in this quarter versus previous quarters and the second is once you are shifting your customers to the shorter buckets, won't you face some squeeze on the yields versus your traditional product which would affect profitability somewhat negatively?
- V.P. Nandakumar:** First is we are trying to create increase visibility in the local market by renewed vigor in the sales efforts in the local market around the branches. The second question it will not affect our average yield. The traditional product may be priced slightly lower but that will get balanced with the short-term product which has priced slightly higher. So the average yield will remain the same, will not be affected.
- Viral Jain:** And just one more related point is, was there any big difference in terms of disbursements in January-February and March as in if you do a month-on-month comparison?
- Kapil Krishan:** As we shift to shorter tenure product that will also result in some natural increase in disbursement so that could also be one factor for the increase in disbursements.
- Moderator:** Thank you. Next question is from the line of Kunal Bhakta from Lastaki Advisors. Please go ahead.
- Kunal Bhakta:** The point which you mentioned about the shorter tenure loans which you've introduced and to another question you mentioned that there is no real impact on the P&L but wouldn't the cost to income ratio change a little bit because you are effectively having a lot of front end



processing effort if you were to allocate your staff effort to disburse a loan and so on. So over a period of time shouldn't that see a little bit of impact on your cost-to-income ratio?

**Kapil Krishan:** The variable cost of processing a loan is absolutely as good as nothing, as you know so there will not be any increase because of this.

**Kunal Bhakta:** And my other question is on the new businesses, the stated goal of having 25% contribution from the new businesses in three years, what is our underlying base assumption in terms of total amount of equity which Manappuram will need to infuse in these businesses or these businesses will need to yield independently to achieve this kind of number?

**Kapil Krishan:** We will capitalize the Housing Finance business by around 50 crores in terms of equity and as you know we have already invested around 112 crores in the microfinance business. The commercial vehicles business is division of the listed company so it's not in a subsidiary so there is no equity capital that would need to be infused. And as and when the subsidiaries need equity support we are definitely willing to do that because as you know we are looking to actually increase our gearing levels and we have got excess capital which we want to use to grow the gold loan business and to invest in these new businesses.

**Kunal Bhakta:** So 50 crores you have already infused into the housing?

**Kapil Krishan:** Yes that is right.

**Kunal Bhakta:** And what is the plan in terms of the branch network, there would be certain assumption in terms of independent branches contributing to housing finance and then the certain assumption in terms of the existing branch network of Manappuram which will originate some of the housing loans.

**Kapil Krishan:** So the new businesses are given freedom to locate within a Manappuram branch or to choose a separate location depending on their business needs so mostly we have seen currently that housing finance business which needs at least 4-5 manned branches, they are choosing to have separate locations which is fine with the scheme of things and the commercial vehicle business, the people are more on the road most of the times so they are preferring to co-locate with the gold loan branches. So it's a mix and match depending on the business needs.

**Kunal Bhakta:** On the commercial vehicle side what exactly is the strategy now, I mean is it a combination of new vehicles and used one or how?

**Kapil Krishan:** Yes it's a mix of new and old and light and heavy, it's a mix of assets.

**Kunal Bhakta:** So when you talk about the next three years plan how many branches do you plan to open exclusively for housing?

- Kapil Krishan:** No that is not a figure which is fixed as of now as you know the business is still at a very early stage so that would be a bit early to comment on that.
- Kunal Bhakta:** And as far as the growth on the gold side of your business is concerned, one is of course your focus on the shorter tenure product but is it something which other competitors have also followed suit with or it's something which only Manappuram has done in terms of differentiation?
- V.P. Nandakumar:** As far as we know the differentiation has been done by us to protect the assets.
- Kunal Bhakta:** And in terms of your existing staff per branch are you at an optimum level or you see any potential to kind of optimize on that?
- V.P. Nandakumar:** Now we are at optimal level.
- Moderator:** Thank you. Next question is from the line of Anand Jhavar from Crosses Capital Services. Please go ahead.
- Anand Jhavar:** As far as the diversification is concerned Asirvad Micro-finance seems to be the most promising amongst all the diversification that Manappuram is taken in the recent past. Just wanted to get some sense of how aggressively you would want to expand that line of business because as I understand the way it's around 4% which is more than the traditional business. So one is the more color on the microfinance front and second is about the bank branches, are there any cross-selling that we are looking at some tie-ups with bigger banks for some cross-selling of products, these are the two questions?
- V.P. Nandakumar:** Asirvad as you have mentioned we also are hopeful that this is a good diversification; we will continue to strengthen the company. Now to the regulations are not worked out as far as MFI factor is concerned .As you know the SRO is there .There can be a separate regulator we don't know. Anyway if the regulation is much more robust than the past and across the country we are seeing good opportunity. The reason is many of these existing the MFIs are starving for capital, most of them have the exposure in Andhra must have done or still unable to come out of the losses they have made in Andhra so this company Asirvad did not have any exposure it's a big advantage so company can definitely look forward for growth. One good thing which I can share with you is after infusion of capital by Manappuram the credit rating of the company has improved. It is one of the highly rated MFIs in the country now, it enjoys credit-rating of BBB+ just after top-rated companies which are in the category of A-.
- Anand Jhavar:** Regarding the cross-selling of products.
- V.P. Nandakumar:** Cross-selling some of the products of the group companies, it's a good option. Another is about product of various banks; we have tied up with few banks to access their **BC**. The Asirvad also has tied up so it's an opportunity because as far as we are concerned we have a live customer base of around (+18) lakhs where cross-selling is an opportunity; we use that, take the full

advantage of that. Similarly Asirvad also has around 4 lakh customers now; hopefully they will double it in another one year. So all this growth gives opportunities for cross selling.

**Anand Jhavar:** Just a follow up, last quarter you mentioned that lot of modernization is taking place in security side of things and that is one of the reasons for driving down the cost. Are we still going ahead and modernizing all the 3300 branches that we have?

**V.P. Nandakumar:** Of course. One good thing I want to share with you is recently we have opened the centers of excellence, Manappuram Center of Excellence in Bengaluru. The center is focusing on modernization using technology. We understand that the key driver and differentiator from going forward will be the technology. I already mentioned we have introduced online payment system, we are planning to come out with e-lockers, e-wallet, etc. So we are hopeful that we will remain ahead of our competitors as far as the technology use is concerned.

**Anand Jhavar:** Any timeline for the e-lockers, next three months, six months?

**V.P. Nandakumar:** Anyway we are hopeful that FY16 will see that.

**Moderator:** Thank you. Next question is from the line of Digant Hariya from Antique. Please go ahead.

**Digant Hariya:** The provisions at 7.7 crores this quarter were slightly higher and the gold prices have almost been stable so what exchange this, I understand some of it is standard asset provisioning because of growth but I think it's still probably a little maybe 3-4 crores higher than what it was last quarter.

**Kapil Krishan:** No actually the reason is that last quarter the gross NPA came down from 2% to 1% that is in Q3 so there was a reversal. So therefore the figures are not strictly comparable.

**Digant Hariya:** And lastly can you give me the number for accrued interest as on March 31?

**Kapil Krishan:** Its 560 crores, it came down slightly sequentially.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to handover the floor back to management for their closing comments. Over to you Sir.

**Kapil Krishan:** I would like to sincerely thank all the participants for staying back late and taking the call. Thank you very much.

**Management:** Thank you. Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference call. thank you for joining us and you may now disconnect your lines.