



“Manappuram Finance Limited Q4 FY 2016 Earnings
Conference Call”
May 12, 2016



**ANALYST: MR. DIGANT HARIA - RESEARCH ANALYST - ANTIQUE
STOCK BROKING**

**MANAGEMENT: MR. V.P. NANDAKUMAR – MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER– MANAPPURAM FINANCE
LIMITED**

**MR. KAPIL KRISHAN - CHIEF FINANCIAL OFFICER -
MANAPPURAM FINANCE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Manappuram Q4 FY'16 earnings conference call hosted by Antique Stock Broking. 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 for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Digant Haria from Antique Stock Broking. Thank you and over to you Sir!

Digant Haria: A very good evening to everyone. Welcome to the earnings call of Manappuram. Today, we have with us Mr. Nandakumar and Mr. Kapil Krishan from Manappuram to take you through the earnings of Q4 FY'16. Over to you Kapil!

Kapil Krishan: Thank you Digant and welcome everyone to Manappuram's Q4 FY'16 conference call. For the quarter ended March 2016 our consolidated AUMs stood at 11,433 Crores and 8.1% Q-o-Q increase and 854 Crores in amount from the previous quarter and up 19.2% year-on-year. Our consolidated income from operations was Rs.652 Crores for the quarter compared to 616.2 Crores in Q3 a 6% Q-o-Q increase.

The consolidated profit after tax was Rs.130.7 Crores for the quarter compared to 100.3 Crores in the previous quarter a 30.3% Q-o-Q and 86.6% Y-o-Y increase. For the full year our consolidated income was Rs.2,360 Crores, up 18.8% year-on-year and the profit after tax was 353.3 Crores up 30.2% year-on-year. Gold loan business has accounted for 88% of the consolidated AUM and new businesses account for now 12% compared to 9% in Q3.

Our gold holdings increased by 2% Q-o-Q to 59.61 tonnes. This holding is up 12.2% year-on-year. This shows that despite sluggish economic conditions the underlying volume growth was strong during the year for us. The gold loan book crossed the Rs. 10,000 Crores mark and stood at Rs. Rs.10,080 Crores. Auctions during the quarter were 185 Crores, they were lower compared to the Q3 figure due to better collection efforts and better gold prices during the quarter.

Our total number of gold loan customers was 19.32 Lakhs up 3% Q-o-Q there were new customer addition of 3.7 Lakhs, weighted average LTV was 63%, gold loan disbursement continue to be strong at Rs 10,869 Crores, our interest accrued was Rs 344 Crores that is 3.4% of the gold loan AUM compared to 7.2% a year ago. This shows that we are now collecting a far larger part of our interest dues. All these factors indicate healthy and strong underlying business fundamentals. The share of the southern part of India in the gold loan book has come down to 65% compared to 70% in March 2014 and 82% in March 2012 indicating further de-risking of our portfolio.

Ashirvad Micro finance our micro finance subsidiary had a closing AUM of almost Rs 1,000 Crores, it was up 43% Q-o-Q and 210% year-on-year. You may recall when we acquired the company in

February 2015 it had an AUM of around 325 Crores which has now almost tripled in one year. They have 6.2 Lakh customers with 346 branches and had an ROA of 3.9% in Q4. We are now present in 13 states and union territories compared to just four states and union territories when we acquired the business a year ago.

For FY'16 full year the company made a profit of Rs 23.96 Crores. Manappuram infused further equity of 100 Crores in Q4, which takes a stake up now to 90.4%, compared to 85% initially. The average cost of fund for Ashivard Micro Finance is now down to 14.3% compared to 17.8% in FY'15. You may recall the company got an upgrade of three notches their credit rating and the rating now stands at A- after our acquisition. They have an adequate capital adequacy of 25.2%, which indicates that they are poised to continue to grow significantly in the current year as well.

The home loans business had a total book of 128.6 Crores, they operate from 24 branches. Manappuram has capitalized this 100% subsidiary to the extent of 100 Crores. The commercial vehicles book stood at 129.8 Crores and they operate from 36 locations which are co-located with the Manappuram branches. All our new businesses have now stabilized and are ready to scale up significantly in the current year. We expect the various new businesses to contribute at least 25% of the total AUM by FY'18.

Our insurance broking business will also commence commercial operations shortly and will start contributing to fee income in the current year. Consolidated financing cost increased marginally by 0.7% during the quarter to Rs 235 Crores. The average cost of borrowing was down further by 18 basis points and now stood at 10.45% in Q4. This average cost of funds has declined by 151 basis points during the year and 225 basis points in the last two years. This was helped largely by the upgrading of our long term rating to AA- during the year and it further validates our strong financial position.

Provisions and write offs for the standalone entity during the quarter was 9.09 Crores. We were very happy to announce that we have moved to recognizing our NPAs at 120 days ahead of the RBI requirement where we had to shift next year. Despite that our gross NPAs were stable at 1%. Even if we measure at 90 days our gross NPAs would have been at 1.4%. Further, we have made provisioning of standard asset 35 basis point in this quarter itself, which is higher than the 30 basis point required by RBI.

As we have been pointing out our gold loan business does not face NPA problems that are currently being faced by many other players in the financial services space. Most of our gross NPAs relate to accounts that are regularly servicing interest as well.

Loss of assets due to thefts, spurious gold etc., were very low at 0.12% of the AUM, this shows the robustness of our internal risk management system. Our employee cost decreased by 2% to Rs 111

Crores during the quarter. Our consolidated head count stood at 18,734. There was a 9.7% Q-o-Q decrease in administrative cost, depreciation cost increased marginally to Rs 15.6 Crores. Overall, number of gold loan branches was stable at 3,293. The consolidated network stood at Rs 2,758 Crores, book value per share was Rs.32.8. The board had declared an interim dividend of 45 paise in March itself, hence no further dividend was proposed now. Capital adequacy as at the end of March was 24%, total borrowings stood at Rs 9,638 Crores, our annualized consolidated ROE Q4 annualized was 19% and annualized ROA 4.2%.

With this update on the financials I will 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 today to discuss our Q4 results. At our last con call in February I had discussed our performance in the backdrop of the distress in the rural economy following two successive years of poor rainfall. Since then, we are beginning to see the signs of a turnaround. The Indian Metrological Department has predicted above normal rains for this year. The impact will be positive for agricultural output and farm incomes and it augurs well for the inflation outlook. Needless to add, it also bodes well for gold loan. Inflation under control will strengthen the case for further rate cuts by the RBI. This is a welcome prospect for all businesses in India.

Refinements in liquidity management announced in the current monetary policy is introduction of marginal cost of funds based on lending rate MCLR and the cut in small savings rate will improve the transmission to borrowers. The union budget for 2016 provided for sharply increased spending in rural areas. The allocation for MNREGA has increased substantially with focus on creation of permanent assets. Rural demand looks set for revival and that is positive for the NBFCs like ours with significant presence in rural area. India's financial inclusion drive continues to gather momentum. More than 21 Crores Jan Dhan accounts have been opened so far and the deposits have crossed Rs 36,000 Crore, importantly nearly 75% of the accounts are reported to be active, also more than 100 Crore Aadhaar Cards have been issued representing almost 80% coverage. Going forward Aadhaar and Jan Dhan will hasten the shift of business in rural areas from the unorganized to the organized sector. Banks, NBFCs and gold loan NBFCs stand to benefit. Gold prices have made a remarkable comeback this year after a crashing to five-year lows in December 2015. International gold price gained nearly 20% this year up from \$1060 to about \$1270 currently. The volatility across global equity and currency markets, have revived the demand for safe haven, however even as we draw comfort from the relative stability with upward bias in gold price we continue to de-link our fortunes from the price of gold. We are now less vulnerable to gold price and less dependent on gold loans for business growth. We adopted two strategies to attain this comfort. Firstly, the new business model we adopted for gold loans, involved a shift to a short-term gold loan. Today our almost 90% of our entire portfolio has moved into short-term bucket of three months and six months duration, which makes us relatively immune to future corrections in gold price. Thanks to this, yields have also improved as

auction losses have come down and secondly our diversification into new business areas of microfinance, home loans, commercial vehicle loan and SME lending. In February 2015 we acquired Ashirvad microfinance private limited with AUM of around Rs. 300 Crores. Here was a microfinance company struggling against odds to grow. Today, one year after it became our subsidiary the company's AUM has more than tripled to around Rs 1,000 Crore. After Manappuram came into picture Ashirvad Micro Finance was able to leverage on our creditworthiness and raised loans from banks up to 250 basis points lower than what they were paying earlier. This one single factor altered their business dynamics giving them comfortable cushion to meet competition head on and to expand to new geographies. From a presence in just four states when we took over Ashirvad is now active in 13 states and union territories, Madhya Pradesh, Chhattisgarh, Punjab, Haryana, and Chandigarh and UP are some of the new markets we opened up. These days India's microfinance sector in general is doing well and we expect Ashirvad Microfinance to maintain rapid growth in the coming years as well.

Our other new businesses, commercial vehicle loan, housing finance and SME loans now contribute over Rs. 300 Crores in our AUM of about 11,433 Crores, importantly they have attained a measure of stability. We expect to scale up these businesses and thereby further de-risk with our balance sheets. As a percentage of total assets all these new businesses together contribute 12% of our consolidated AUM today. In December 2014 quarter prior to Ashirvad acquisition it was next to nothing. Since then, the share of new business has been growing quarter after quarter. In December 2015 quarter this share was 9%, which has now increased to 12%. We are confident that new businesses will contribute about 25% of our total AUM by 2018. Another significant development away from the risk angle is that as a company we continue to live up to our motto of 'Make Life Easy.' We have now made gold loans even more convenient with the launch of online gold loan OGL. A customer who has completed the initial formalities can now avail a gold loan 24x7 from anywhere in the world. In fact even as he sits at home, the loan proceeds are instantly transferred to his bank account. In the coming days we hope to extend this concept even further with a co-branded debit card that would allow the customer to withdraw the amount from any ATM located anywhere. Thank you. Now the floor is open for you to questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Shweta Daptardar from KR Choksey. Please go ahead.

Shweta Daptardar: Sir Congratulations on great set of numbers. Just couple of questions, can you just quantify the reduction in auctions and the resultant reduction in interest losses?

Kapil Krishan: The auctions were Rs 390 Crores in Q3 and Rs 185 Crores in Q4, so the reduction is mainly because of better collection, so lesser loans go into auction. That was the main reason for that.

Shweta Daptardar: Sir and the interest losses?

- Kapil Krishan:** Basically the net yield has actually gone up by 100 basis points, which you may calculate and that is because of even lesser need for the interest reverses.
- Shweta Daptardar:** Sir secondly you just mentioned in your opening remarks like the online gold loan portfolio now how has been the performance of this new OGL product and has it translated into any cost reduction?
- V.P. Nandakumar:** It will lead to cost reduction over a period of time, because now the transaction cost will come down and the people from the distant areas can use the services, it will lead to increase in the AUM per branch with the same number of employees service delivery will be faster, easier and more cost effective in another one year the results will be evident.
- Shweta Daptardar:** How has been the customer awareness as far as this OGL product is concerned because all these years, you have got walk-in customers as far as gold loan portfolio primarily is concerned, so how do you think this OGL thing will trickle down effectively?
- V.P. Nandakumar:** OGL will help us in several ways. Through OGL, a regular collection of interest, which we want to make sure the customers are remitting their interest monthly, this is possible. The second thing the longevity of the loan, de-risking of the products will be available because they can pledge their gold somewhere, they can later close it, later also after closure they can avail the loan again, this comfort factor will help them to elongate the loan life, that will help us to grow our portfolio also. What is important for the customer is convenience here.
- Shweta Daptardar:** Sir you mentioned that the new business should form 25% of your overall AUMs by the end of FY'18, so then how do you see this 25% new business break-up across your microfinance vehicle and home loan portfolios? I mean obviously microfinance would be the major contributor but how do you see this three portfolio mix in this 25%?
- V.P. Nandakumar:** Microfinance of course by FY'18 hopefully we may reach around Rs 4,000 Crores this is our expectation and home finance also will be more than Rs1000 Crores similar is the expectation for commercial vehicle finance and the SME will gain momentum may be around Rs 500 Crores by that time this is our expectation and gold is expected to grow at a rate of 20%.
- Shweta Daptardar:** 20% by end of FY'18?
- V.P. Nandakumar:** Yes.
- V.P. Nandakumar:** Some new initiatives are planned which will be announced. We will enter into products like two-wheeler etc. These are in the planning stage, and may be launched within two years.
- Shweta Daptardar:** Sir, will gold AUMs be growing at 20% Y-o-Y by the end of FY'18?

- V.P. Nandakumar:** Yes.
- Shweta Daptardar:** Okay and if I am not wrong, FY'15-'16 it was somewhere between 10%-12%?
- V.P. Nandakumar:** That's right.
- Shweta Daptardar:** Okay what is this 20%, which is actually a very high number what exactly would drive that 20% AUM growth?
- V.P. Nandakumar:** During last couple of years there was a drag because of the auctions, now with improved collection and also improved convenience for the customers to remit etc. the life of the loan will get elongated, I mentioned about it. That is going to be one of the reasons for driving the gold loan growth in the coming years. So if we could have plugged these auctions in the past we would have grown at this rate. Now with this improved collection, technology enabled remittance facility for the customer etc., the auction will come down and definitely this is going to be a major driver in growth.
- Moderator:** The next question is from the line of G. Vivek from GS Investments. Please go ahead.
- G Vivek:** Congratulations on excellent set of numbers. Sir few queries from my side, number one, now the RBI and the government are quite serious in terms of monetization of gold lying idle in large number of households. How is the opportunity for us in terms of that and number two would we have any chance of going back to the old days where there were lot of control by RBI and our performance deteriorated? Thank you.
- V.P. Nandakumar:** We are not part of gold monetization scheme of the government. We are only a lending agency. Your second part of the question was the loss of control. Also, in those days, in the market LTV was very high, we were granting up to 80-85%, now if you compare that LTV with current LTV it is around 60%, so the chances of loss on account of price volatility is very low now.
- G Vivek:** What is the opportunity size for our gold loans business because huge amount of gold jewelry is lying totally unused and inside lockers and absolutely doing nothing?
- V.P. Nandakumar:** It is an opportunity. I mentioned about the IMD prediction that the rainfall is expected to be good for the current year so this will definitely help propel demand in the rural economy, which will drive the growth of the gold loan business as any other micro lending business.
- Kapil Krishan:** Just to give you some approximate macro numbers the total gold that is estimated to be in India is 20,000 tonnes out of which the banks and NBFCs have monetized about 900 tonnes and there are estimates that the informal sector is supposed to be four times larger. So with the increased financial literacy with the launch of Aadhaar and No-Frill account it would be a fair expectation that more

business should shift from the informal sector to the formal sectors which is also the other growth opportunity for us.

V.P. Nandakumar: For us the additional thing what we are offering to the customer is technology, currently we have the online gold loan. In the coming days we plan to come out with a co-branded debit card where the customer can draw cash through the ATMs. This also will help the business to grow.

Moderator: Thank you. The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Sudhakar Prabhu: Hi good evening, congratulations for good set of numbers. Couple of questions, you mentioned that non gold portfolio would be around 25% of your book by FY'18 so would it be safe to assume that this book would grow around 30%-35% over next two years?

V.P. Nandakumar: Probably because the microfinance will be a major driver, microfinance opportunities that sector will be growing, this is one thing, each of these larger MFIs are in the process of converting themselves as banks, so they have slowed down their MFI business, this is an opportunity for the existing large MFI's, so we will be able to capitalize on that. Other thing we are into affordable housing. We have a plan to enter into micro housing also, these are growth sectors, and then SME lending again when the rural economy is picking up that also will attain a robust growth in the coming three years.

Sudhakar Prabhu: Right. And my second question is on the leverage, on a consolidated level I believe your leverage is around four times so what kind of leverage are you comfortable with and what is the maximum leverage you can take on your balance sheet?

Kapil Krishan: See we are actually 3.5 times, capital adequacy on standalone is 24% and five to six times is comfortable for us.

Sudhakar Prabhu: Right and my third question is on your dividend policy your pay out was around 45% last year so would you maintain that dividend and also last two years you have been paying quarterly would you maintain that dividend policy?

V.P. Nandakumar: We expect to do so.

V.P. Nandakumar: 45 paise per quarter.

Kapil Krishan: See we do not have a payout percentage kind of outlook but the Rupees per share will be maintained.

- Sudhakar Prabhu:** And my last question is on your ESOP policy I believe there was this announcement of some revived ESOP policy, can you explain what exactly it is and who all would benefit from this new ESOP policy?
- V.P. Nandakumar:** We have given an in-principal approval today, the nitty gritty's have to be worked out, and maybe we will be able to come out with it in another one month.
- Moderator:** Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** Can you give me an average yield on gold loan for the full year and our cost of borrowing, you mentioned a number about cost of borrowing in the standalone business that I missed out?
- Kapil Krishan:** Our net yield is around 24.2% and cost of funds in Q4 was 10.45%.
- Kashyap Jhaveri:** When you say 24.2% this is exclusive of any recoveries or interest?
- Kapil Krishan:** Correct.
- Kashyap Jhaveri:** On Ashirvad Micro Finance you said SME target is about 500 Crores so currently there are no SME loans in that particular business or is there?
- V.P. Nandakumar:** No in micro finance, there is no SME business, from parent company's book we have a portfolio of around 45 Crores through SME.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.
- Kunal:** Firstly in terms of when we look at the rates which are there are now. I think per gram it has moved to almost like 2000 and today we are somewhere around 1650 or so, so based on that may be and looking at the ground level how the overall demand is that say with the rise in the gold prices we would eventually see the growth also building up some kind of a momentum?
- V.P. Nandakumar:** Yes, the gold price is somewhat steady now because I am hopeful that it will be maintained at this level.
- Kunal:** No Sir in terms of LTV per gram when we look at
- V.P. Nandakumar:** See LTV we are at a comfortable level.
- Kunal:** No per gram

- V.P. Nandakumar:** For one year our LTV is around 60% of the gold value whatever is the current price our LTV is 60% for the one year loan, if it is three months we grant 75% LTV, so with the changes in gold price we change the LTVs.
- Kunal:** No so this 75% would translate into how much per gram 1950 to 2000 per gram?
- V.P. Nandakumar:** It is around Rs.2000.
- Kunal:** Yes, may be in this 75% so three months and the one year how would be the split in the overall disbursements when we look at it where would the larger proportion be tilted towards?
- V.P. Nandakumar:** Yes, three months and six months constitute around 90% of our portfolio.
- Kunal:** When we look at it, when say this three months to six months is 90% LTV per gram is 2000 and today when we look at on book LTV per gram that comes to somewhere around 1690 okay so to that extent when we look at it may be from 1700 even if it goes towards 2000 so that is like almost like 17-18%.
- V.P. Nandakumar:** Our weighted average LTV as of now is 63% at 1692.
- Kunal:** Yeah, that's what so 1690 is the current LTV per gram incrementally we are lending 90% of our book at 2000 odd to 1000 odd or 950 odd.
- V.P. Nandakumar:** See three months and six months portfolio would constitute around 90%, there used to be a hair cut also, our average LTV currently as on the last day is 1692 so 63%.
- Kunal:** Yeah, no but incremental how much would that be? So on an average what could be the incremental, on book it is 1692 but on an incremental basis since say from December
- V.P. Nandakumar:** Incremental there could be an increase of around 10%, so from that LTV level 1692.
- V.P. Nandakumar:** When the price moved up the LTV also has changed.
- Kunal:** So when we look at it when the prices of moving up so in this overall case when we look at gold stock as well so if that also grows at a similar level of 10%-12% which we had this year so then may be 20% plus growth is something which may be we could be easily able to attain in say FY'17 or may be this increase in LTV will get offset by say the lower pledging of gold so I just wanted to understand may be at the ground level may be demand is good enough in order to say support this kind of a 20% growth and we would be able to entirely pass on the benefit of the LTV side to the customers?

- V.P. Nandakumar:** Should be good enough because of two factors one the rural economy is expected to pick up, second the auction, as we have stated earlier will come down which will arrest de-growth. On the one side the degrowth is arrested and other side new customer acquisitions are happening, new facilities are made available to the customers, with all these we are hopeful that we will be able to maintain 20% growth in gold loan.
- Kunal:** Okay, and overall yields also should broadly settle Sir.
- V.P. Nandakumar:** Yes, these are mostly short-term loan, more important for the customer is the convenience factor, and if we are offering with this I think the yield may not be a big issue.
- Kunal:** Sir in terms of card rate we have not reduced anything, over last six months have we reduced the rate Sir?
- V.P. Nandakumar:** Yield is maintained at the same level, we have not reduced.
- Kunal:** So whatever benefit we are seeing on the yield that is on account of the lower loss on auction.
- V.P. Nandakumar:** Yes, this has helped us to improve our net interest margin.
- Kunal:** Okay so the only factor has been on account of the lower loss.
- V.P. Nandakumar:** Yes.
- Kunal:** In terms of MFI this Ashirvad which is there so what is the average ticket may be Q4?
- V.P. Nandakumar:** Average ticket is around 20,000 less.
- Kunal:** On incremental disbursement...
- V.P. Nandakumar:** Yes.
- Kunal:** Which are the regions wherein we would be active?
- V.P. Nandakumar:** Tamil Nadu state was almost 90% when we acquired it a year ago and today it is down to 52% and Karnataka is about 19% so new states account for almost 30% now.
- Kunal:** Okay and these new states would be say Haryana, Karnataka?
- V.P. Nandakumar:** Yes MP, UP, Chandigarh etc.

- Kunal:** Okay. And any risk since I think now its like to be new segment wherein we are entering so may be like we would be say the second lender in most of the regions and say the overall disbursement is also 20 odd thousand, so do we see risk in terms of growing this portfolio at this kind of a pace.
- V.P. Nandakumar:** See unlike the past the micro finance business is well regulated, there is a SRO called MFIN approved by the Reserve Bank. There are so many regulations. A customer cannot borrow from more than two NBFC's MFI's, the credit bureau is also of help. So the micro finance industry is now much more safer than in the past.
- Kunal:** Okay and the overall growth in this portfolio will continue at the current rate?
V.P. Nandakumar: May not be. Over the nextt three four years a sustainable growth level will be around 40%.
- Kunal:** Okay and the average yields so what are the lending rates around there?
- V.P. Nandakumar:** It is coming down because as per the regulation there is an interest spread cap, that is around 10% so as interest rate is coming down it continues to be reduced it was around 26% in the past now it is around 24%, it may come down further which will not impact the profitability
Kunal: So it is 24% as of now.
- V.P. Nandakumar:** Yes, below 24.
- Kunal:** Okay, because their cost of borrowing in that case may be slightly on a lower so if we are keeping this cap of 10% of spread.
- V.P. Nandakumar:** It is statutory.
- Moderator:** The next question is from the line of Shiva Kumar from Unifi Capital. Please go ahead.
- Shiva Kumar:** Thank you for the opportunity and congrats for the great set of numbers. Sir I just want to find out kindly the AUM per branch is around 3.13 Crores, is there any scope for additional growth coming from the existing branches or are you looking to expand your branch network further for more growth or what is your strategy?
- V.P. Nandakumar:** As of now our plans are to strengthen the existing branch network, we want to consolidate that, there is much more scope for business in these branches, so our focus is for trying these business in these branches.
- Shiva Kumar:** Sir for the non-gold loans are you going to use your existing gold loan network to increase its share or you are going to set up new branches exclusively for non-gold business because in your presentation

you had clarified only CV business as one segment which is using your existing gold loan branches so I am wondering as to whether the other segments are have their own branches for the business growth?

V.P. Nandakumar: For the SME business also some of the branches could be used. For home loans finance which is being regulated by National Housing Bank, so they have some restrictive regulations in sharing premises with other entities so we are having separate branches for this business.

Shiva Kumar: Sir and coming to your borrowings currently 77% is from banks what are your current borrowing rates from the banks Sir?

Kapil Krishan: So we are getting at base rate I mean when MCLR low rates from almost six to seven banks and incrementally we are getting at about 9.50 to 9.70.

Shiva Kumar: And given the low deposit rates from the banks are you looking at any issue of retail NCD going forward, do you have any plans for the coming year?

Kapil Krishan: We have already started taking some longer-term funds including longer-term loan from banks plus NCDs and that should diversify the funding sources.

Moderator: Thank you. The next question is from the line of Jehan Bhada from Motilal Oswal. Please go ahead.

Jehan Bhada: Sir my question is on your operating expenses so with non-gold businesses expected to grow at a fast pace how should we look at your employee expenses as well as operating expenses going forward say in FY'17?

Kapil Krishan: As the AUM grows there will definitely be some efficiency in the average opex to AUM ratios and there has been already a reduction in Q4 where it came down from 8.4 to 7.9% and we expect to continue to see a slight declining trend because the new businesses like the home loan and the commercial vehicle businesses it was a first year for them, so the opex to AUM should come down in this current year where the growth will kind of come in so we continue to expect a slight declining trend in this.

Moderator: The next question is from the line of Ravi Aggarwal from Sterling Capital. Please go ahead.

Ravi Agarwal: Sir I want to ask this employee expenses have grown by 30% Y-o-Y almost so considering the rapid growth we are experiencing so could we model similar kind of growth in employee expenses for the next year?

- Kapil Krishan:** No see in FY'16 we had started incentive to our gold loan branches which were not there in the previous year and also we had made a one-off provision for the Payment of Bonus Act, so because of that there was the higher increase, if we remove that the increases absolutely in line with the growth in the AUM which trend we expect to continue.
- Ravi Agarwal:** Sir our cost of funds in the microfinance business is around 14%, so in the coming year as the scale grows could we expect another reduction in microfinance cost of borrowings from 14%?
- Kapil Krishan:** Yes, that is the objective, but as you know the spread is capped there, so whatever reduction in cost of fund has to be passed on to customer.
- Moderator:** Thank you. The next question is from the line of Gopinath Reddy. Please go ahead.
- Gopinath Reddy:** This is regarding the increase in the provisions and writes off that in this quarter in the standalone business, is it because of the change of bucket from towards 120 days or is there any other reason for this?
- Kapil Krishan:** No it is because we shifted to 35 basis point of standard provisioning.
- Gopinath Reddy:** From?
- Kapil Krishan:** From 30 basis points, as RBI requires to do 35 basis point in FY'17 but we shifted one quarter earlier that is why there was an additional provision.
- Gopinath Reddy:** Okay. The second question is Sir regarding this gold depository service that we started off, in that advertisement it is mentioned as it is related to giving people the facility of keeping their gold as if it is a locker kind of, is it going to be expanded to all the branches are only for specific branches as such?
- V.P. Nandakumar:** No we have not started any gold depository service, what we have started is online gold loan where the customer can deposit his gold and complete all documentation formalities and avail a loan at his choice at 24x7 from any part of the world, that is the thing what we have introduced.
- Gopinath Reddy:** It is doable in every branch is it?
- V P Nandakumar:** Every branch.
- Gopinath Reddy:** Suppose a customer want to keep the gold in that and use it as a two way thing one is as a locker as well as for a loan purpose can he frequently go and take the gold as and when he want kind of is that facility also available or it is not like that?

- V.P. Nandakumar:** As of now this locker facility is not offered.
- Gopinath Reddy:** Okay we cannot use is as a both the way kind of things.
- V.P. Nandakumar:** Right.
- Gopinath Reddy:** Sir the third thing is related to I mean I just felt if that facility is given a lot of customers may come to you are middle class kind of people from the banks. Okay. The third thing is related this is micro finance related, on my channel checks in the local area in Tamil Nadu I found that there are several people who took loans from I will name them also, Equitas, Dhanalaxmi, Surya, HMT and a bank that is Indian Bank; leaving Indian bank aside when they are able to take four loans from four micro finance companies even though there is a rule from RBI that only they can take from only two micro finance companies at a time, is it some loop-hole or did I read it wrongly, that is my doubt?
- V.P. Nandakumar:** No I do not think it is happening now because the SRO, MFIN is regulating it very well, so I do not think this happening nowadays.
- Gopinath Reddy:** I am surprised that Equitas gave the last loan for a customer who is having already three loans that is the worry thing?
- V.P. Nandakumar:** The possibility is very remote but if it has happened it may be a mistake.
- Kapil Krishan:** We have got very strict internal audit and we can say that for us that is not happening.
- Gopinath Reddy:** Yes, Sir it did not happen, in my checks also our companies name was not there but the other companies are able to do so I am worried where is the loop-hole kind of. Okay. That is all from my side.
- Moderator:** We take the next question from Naresh Kataria from Money Curves Investment. Please go ahead.
- Naresh Kataria:** Congratulations Sir on the very exceptional set of numbers. My question is on gold business, I see that banks which vacated the space are becoming little more active so how do you find the competitive scenario because banks are giving at a lower rate so would we be able to maintain our old days in growth with the new scenario?
- V.P. Nandakumar:** See the gold import to the country is almost steady every year at 1000 tonnes it is growing, as mentioned earlier the gold in the country is estimated to be around 20,000 to 25,000 somebody says 30,000 tons etc., so with the new technology etc., it can be made as lifestyle product rather than a business product. When we move to that lifestyle product there is an opportunity for more and more people availing this facility, its an opportunity, now the banks have been active in the past five years,

ten years back they were very active but euphoria in gold loan used to be very much fluctuating sometimes whenever somebody is doing well they enter, later they go back this is the scenario especially in the case of new generational bank. Now the old generation bank it is there but growth may not be that good, it may be sluggish. These factors would offer good opportunities for gold loan companies with larger size etc., higher capital adequacy with higher credit rating and availability of debt from multiple sources. This may not be available for new entrants so I think for growing at a targeted rate of 20% CAGR may not be any issue.

Naresh Kataria: Sure Sir my last question is on the borrowing rate I see that we have very nicely had a reduction in borrowing rate contributed by multiple reasons, should the trajectory continue do we have still higher cost NCDs which we will swap and I am hoping that we will get a rating upgrade with our excellent balance sheet side spend, so could we expect a further trajectory of lower consolidated borrowing cost?

Kapil Krishan: We had a 150 basis point reduction in FY'16 and so going forward definitely the same pace will not continue it will also be linked to how much the banks pass on cuts by the RBI and the overall borrowing climate, we are largely in floating rate borrowing right now still which is almost about 85% to 90% of our debt but as I mentioned we are trying to move to a little longer tenure funding now and trying to lock in the rate so definitely the same trajectory should not be possible in this year.

V.P. Nandakumar: CARE already upgraded our credit rating to AA- this year.

Kapil Krishan: And we took the benefit of that to reduce our cost of funds.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question I now hand the conference over to Mr. Digant Haria for closing comments.

Digant Haria: Thank you everyone for attending the call and thanks to the management for taking out time and answering the questions of the investors and the analyst. Have a great evening. Thanks everyone.

Management: Thank you everyone for joining.

Moderator: Thank you. Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference, thank you for joining you and us may now disconnect your lines.