



# “Manappuram Finance Limited Q2 FY 2017 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to Manappuram Finance Limited Q2 FY2017 earnings conference call hosted by Kotak 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishchint Chawathe from Kotak Securities. Thank you and over to you Sir!

**Nishchint Chawathe:** Thanks Janis, Hello everyone and welcome to 2Q FY2017 earnings conference call for Manappuram Finance, Ltd., to discuss the financial performance of the company and to address your queries, we have with us today Mr. V.P. Nandakumar, Managing Director and CEO, Mr. Kapil Krishnan, Group CFO and Mr. Raja Vaidyanathan, MD of the MFI business. I would now like to hand over the call to Mr. Nandakumar for his opening comment.

**Kapil Krishan:** I am Kapil here. Ladies and gentlemen welcome to Manappuram’s Q2 FY2017 conference call. For the quarter ended September 2016 our consolidated AUM stood at Rs. 14,490 Crores, an increase of 1581 Crores compared to previous quarter, which is 11.3% and this is 41.8% year-on-year. Our consolidated income from operations was Rs. 842 Crores, which is 12.9% Q-on-Q. Consolidated profit after tax was Rs. 192.4 Crores compared to 160.3 Crores in Q1, which is an increase of 20% Q-on-Q and 205% Y-on-Y. Our gold holdings increased by 4% Q-on-Q to 65.9 tonnes. This is up 14.9% year-on-year. Our total number of gold loan customers stood at 21.8 lakhs. There was new customer addition of 3.97 lakhs during the quarter, which is 5.8% growth compared to the previous quarter. These show that our underlying volume growth figures continue to be strong. The gold loan book crossed Rs. 12,000 Crore mark and stood at Rs. 12,382 Crores, this is up 30% year-on-year and 9.1% Q-on-Q. Auctions during the quarter were Rs. 22 Crores. They were lower for the quarter due to better collections and also due to the higher gold prices. Our weighted average LTV stands at Rs. 1882, which is 65% of the current gold price. Gold loan disbursements continue to be strong during the quarter and were 14,901 Crores. Our interest accrued was Rs. 361 Crores, which is 2.9% of the gold loan AUM compared to 4.3% a year ago. This shows that collections now are a far larger part of our interest due. All these factors indicate strong and healthy underlying business fundamentals. As discussed earlier, we have taken many steps to delink our business from gold prices by introducing shorter tenure products, emphasizing on regular interest collection and also tighter income recognition norms. We have also been continuously investing in improving our overall customer experience through superior technological solutions. We have pioneered offering online gold loans to our customers who can avail and repay the gold loans online via their phone or through the web. The online gold loans now account for 5.4% of our total gold collateral. Further, over half our disbursements are made directly to the customers’ bank accounts rather than in the form of cash. Asirvad Microfinance had a closing AUM of 1570 Crores, 27% increase Q-on-Q and 191% year-on-year. They had 9.6 lakh customers with 557 branches, 3200 employees and earned an ROA of 4% in

Q2. They are now present in 14 states and union territories compared to 4 states and union territories when we acquired the business little over a year ago. The share of new states now accounts for 33% of the total AUM. CRISIL also upgraded their rating to A+, which makes it the highest rated MFI in the country. The home loans business has a total book of 213.3 Crores, it operates from 30 branches, we have capitalised the company to the extent of 100 Crores. This subsidiary too has been assigned an A+ rating by CRISIL during the quarter. The commercial vehicle business AUM stood at 212.6 Crores, it operates from 43 locations. New businesses now account for 15% of our consolidated AUM compared to 11% in the previous quarter. The new businesses have stabilized and are ready to scale up significantly in the coming year and quarters. Consolidated finance cost increased by 11.7% during the quarter to Rs. 295 Crores due to the growth in the loan book. Our average cost of borrowing during the quarter declined by 25 basis points to 10.1%. The average cost has been lowered by 101 basis points compared to a year ago and 229 basis points compared to 2 years ago. This indicates our improved financial position. We have also further diversified our borrowing mix and banks now contribute to around 62% of the total borrowing as at the quarter end compared to around 75% a few quarters ago. Employee cost increased by 9.1% to Rs. 131 Crores, our consolidated head counts stood at 20,493, which is up 5.8% Q-on-Q. There was an 11.7% increase in the administrative costs to Rs. 93 Crores, depreciation cost was flat at 15.6 Crores, and overall number of gold loan branches was the same at 3293. Provisions and write offs for the standalone entity during the quarter were Rs. 13.4 Crores. We recognize NPA at 90 days compared to the RBI requirement to do so at 120 days. Despite that our gross NPAs were below 1%. We also made standard asset provisioning at 40 basis points instead of 35 basis points mandated by RBI. Loss of assets due to theft, spurious gold, etc., amounted to 9 basis points only. This shows the robustness of our internal risk management systems. The company's consolidated networth stood at Rs.3060 Crores. Book value per share was 36.36. Interim dividend Rs.0.5 has been declared by the board. Capital adequacy was 21.8%, consolidated borrowings were 12,226 Crores. 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 Q1 business. We are meeting today against the backdrop of the surprise announcement about the demonetization of Rs. 500 and Rs. 1000 currency notes. The media was very much interested to know from us how we would be impacted by the measure. About the demonetisation we see it as an opportunity because it will hasten the shift of the gold loans from the unorganised sector to the organised sector. And for sometime now we have all been getting indications that the government is keen to minimise the role of cash in the economy and we have been positioning ourselves in line with this trend. Today, I can say we are quite prepared for the eventual transition to a cashless economy. Cash disbursements of gold loans take place only up to Rs. 1,00,000 and beyond we are using NEFT. In fact, 50% of our gold loans are disbursed through NEFT today. We are now aggressively promoting our online gold loan product and our efforts to mobilise gold loan repayments of interest and principal has met with good success. OGL now accounts for about 5.4% of the total gold collateral. Commenting on our

other technical initiatives, we are taking the efforts forward by developing a new age gold-based Fintech business opportunities. We are implementing new technologies like net lockers, mobility solutions, eKYC, digital wallets, etc., so that customers will access our products and services through their smart phones. The pace of change in technology is such that there is no resting on ones laurels. On our part, we would like to be future ready. Talking about our performance, I think much of the groundwork has already been covered by Kapil; however, I would like to pick out a few aspects for attention. Firstly, our gold holdings have been going up, this quarter it was up by 4% at nearly 66 tonnes at a growth of 15% for the full year. This is a sure indicator of real growth happening, which is beyond the mere replacing of the existing loans. Further, our gold loan book has now crossed the 12,000 Crore landmark. The last time we had touched this level was way back in FY2012. Secondly, the continuing decline in our average cost of borrowing points to the sustainability of our performance. Average cost of borrowing has declined by 101 basis points year-on-year and 229 basis points over the last two years. Thanks to our improved credit rating and to the overall reductions affected by the RBI. With concerns about inflation having eased after a good monsoon, we expect further reductions in the borrowing costs. Diversification which we undertook beginning in FY14 continues to show good results. Asirvad Microfinance has posted a 27% increase in AUM over the last quarter. It closed with an AUM exceeding Rs. 1500 Crores registering 27% growth QoQ and 191% YoY. CRISIL has assigned Asirvad a long-term rating of A+, the highest rating for an MFI in India in their books. Own home loan and commercial vehicle loans are growing neck and neck and together they contribute about 427 Crores of business. Both of these businesses have attained stability and we expect they will contribute significantly to growth in the coming quarter. Importantly, our non-gold business now contributes 15% of our consolidated AUM. In the previous quarter, the contribution was 11% eventually we would like our non-gold business to contribute at least 25% of the total AUM by FY2018. This augurs well for us to become a well-diversified NBFC. Thank you. The floor is open for your questions. Today, Mr. Raja Vaidyanathan, MD and promoter of Asirvad Microfinance is also there any questions on Asirvad Microfinance could be answered by Mr. Raja Vaidyanathan himself.

**Moderator:**

Thank you. We will now begin with the question and answer session. Anyone who wishes to ask a question you may press ‘\*’ and ‘1’ on your touchtone phone. If you wish to remove yourself from the question queue you may press ‘\*’ and ‘2’. Participants are requested to only use handset while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah:**

Yes sir, congratulations on a great set of numbers. So, finally we are back to see the profitability as well as the AUM maybe during the December quarter of FY12. Sir just broadly I wanted to understand maybe in terms of the entire say the cash collection obviously on disbursements, you highlighted that 50% of the disbursements are still on the basis of cheque, but in terms of collections, how do we see the derailment, what has happened at the branches over last two odd days. So are we

thinking in terms of maybe any of the disbursements because many people would want to pledge the gold and take the cash away from you and obviously the new currencies are not available so till the time we also get the new currency on an average we are disbursing round about 14,000 – 15,000 a quarter? So how do we see the disbursements trend, it will be only out of the repayment, which we get, so collection will get also delayed, disbursements and our tenure is much lower. So, will we see the rundown quite significantly in the AUM?

**V.P. Nandakumar:**

Yes, after this currency demonetization drive, today is our first working day. And one advantage also he mentioned when I talked about that. We have launched one fintech product already, online gold loan, OGL where the customer can park his gold in any of our branches and avail loan from anywhere 24 hours, 365 days. So many of the customers are already using this, the amount will be credited to his account. and also for making repayment they can do this using online payment facility.. Today around 5.4% of total collateral is in this particular Fintech model called OGL. In a few months so much of response is there from the field. There are some issues because many of the customers come with these demonetized currencies, so they have to be directed to the bank. So some issues are there, but I hope it will be settled in another 10 days> There are some restrictions in the withdrawal, but this will be eased in another one week's time, is what we believe, once the currencies reach the bank counters. So in the meantime, this is a good opportunity to mobilise our online gold loan scheme. So we take this as a great opportunity. So I do not have much worry about any negative impact on account of this demonetization.

**Kunal Shah:**

Sir, only thing is maybe in terms of the customer savviness with respect to the online gold loan, so is the profile of customer good enough in order to maybe that wherein they can go in for say the online or whether everyone has the banking facility, okay because banks are also offering at a much lower rate, then maybe they would go and get it at a lower rate with banks rather than coming to Manappuram. So how do we see that? If it were purely a noncash-based, the disbursements as well as the collections, then how would maybe the role of a gold financier come in to play?

**V.P. Nandakumar:**

See with government of India's new scheme in promoting accounts, etc., etc., is doing a great help. Another thing a large chunk of customers are not bankable customers. Around 70% of our customers are already bankable; so because of the convenience factor, because of the small ticket, because of the tenure being short and all the other facilities, they come to us, and they prefer us, that is the real story. So about the techno savviness, see we have made this as simple as possible so that very ordinary people can use this, somebody having a smart phone can use this. So I do not think there is a problem. That is why we have been able to popularize this within a very short span of time, in a couple of months and around 5.4% of our collateral has already moved into this sector. So it is progressing very fast. Even today what I understand from the market is more than 2000 of our customers have already moved into this OGL platform, so it is an opportunity also. About the medium term, I do not have any worry, the business will continue as usual. **Kunal Shah:** Okay, and lastly in terms of MFM

business, so question falls to Mr. Vaidyanathan, for our customers how many would be the new customers, which would be adding into the system itself in the MFI space. So maybe they do not have any loans from any other MFIs and they are just new to the entire industry itself, so what would be the proportion of those customers.

**Raja Vaidyanathan:** Roughly we are adding 1,00,000 customers per month across 14 states now and as per RBI guidelines they need not be the first customer, they can have a borrowing for one more MFI. In some areas we are the first lender, but that is a very small percentage, but answer to your question we are adding about a lakh customers every month.

**Kunal Shah:** No, sir the only thing is suppose if we are the second lender okay or maybe since we have just started off being aggressive into that space, so our vintage would be relatively lower as compared to that of the existing players, so do we see any risk of growing aggressively at this point in time wherein say the market is getting overrated in terms of a competition?

**Raja Vaidyanathan:** As long as we are sticking to this two MFI rule and the aggregate we also have an internal MFIN regulation of Rs 65000 in the aggregate so we also made sure that we do not lend more than that, put together we are not lending more than Rs 65000, there is no risk of multiple lending.

**Kunal Shah:** And it is 2 MFI not two lenders right.

**Raja Vaidyanathan:** Two MFIs.

**Kunal Shah:** If someone has it with Bandhan, then we can be a third lender as well?

**Raja Vaidyanathan:** Yes, that is entirely each company has that policy. RBI says only two MFIs and recently we have had a meeting last week with all the lenders saying that we want to bring in the banking system also into this, so that to make it more robust and we do not want some players out of the monitoring system. So some of the banks have accepted that and very soon we will see that we will have, maybe we might have bankers and SFB's also into the same space.

**Kunal Shah:** Okay, thanks a lot Sir.

**Moderator:** Thank you. We take the next question from the line of Manish Oza from Manappuram Finance. Please go ahead. Manish your line is unmuted; please go ahead with your question. We take the next question from the line of Digant Hariya from Antique Stock. Please go ahead.

**Digant Hariya:** Congratulations to the whole team on an excellent set of numbers. I had two questions, one is you know in the light of this demonetisation scheme and I understand you have started branch operations today itself, but have you taken some care to you know to ensure that you know some people

converted their black money into gold and you know they do not come to our branches with that huge gold and convert it into an official white money. So you know maybe this can happen in the next few days, so are we building any checks for this particular thing?

**V.P. Nandakumar:** Yes, see already there is prevention in the system as a whole of black money coming into play, because the pledging for a loan amount beyond one lakh he needs to produce the PAN card, etc., and the payment is made by cheque only. So this system is already restricting the chances of black money coming into the system.

**Digant Hariya:** Right, right, alright. My second question is that we had a pretty strong growth in terms of the tonnage and in terms of new customers, so what are we doing different at the branch, because at least you know lot of other players who are into gold loan have not shown such kind of growth. So you know what efforts we are taking at the branch level to get in more customers.

**V.P. Nandakumar:** So all the time our watchword in the business is to make life easy. So we are making our customers life easy by online products. The customer can pay by online and avail the loan 24 hours, 365 days. And also because of the online payment facility, the customer need not come to the branch for servicing the loan. So what we do now, the overdues are in the range of around 3% overdue interest that is the receivable is only 3%, that means around one-and-a-half month's interest. This shows that our collection drive, which has made a culture in our system, is really working. So this helps us actually in not losing whatever the collateral we have because in the past what is seen is there is a collateral depletion on account of auction. Now because of efficient collection and also of course we have been helped by the higher prices also. The auction is so negligible, due to which the AUM is over 12,000 Crores. Our last quarter's auction was Rs 22 Crores, which itself is a big achievement, even though there was some price increase for the gold. This shows the overall efficiency. The second is the marketing. The main thrust here is to make your life easy, use the online gold loan product. And what we have ensured now is the mobile technology which we employ is easily usable even for common man. So both smart phones and other phones can be used for this. So we have made it so easy so that it is becoming popular.

**Digant Hariya:** Alright and lastly, you know let us say that you know next 2-3 months are a little bit of adjustment period, you know where this entire demonetization drive continues. So you know after that should we be again on track to do our 20% kind of collateral growth for the year.

**V.P. Nandakumar:** It will be 15% to 20% growth annually, this can be assured.

**Digant Hariya:** Alright, alright, thank you very much and all the best.

**Moderator:** Thank you. We take the next question from the line of Vinay Shah from Reliance Mutual Fund. Please go ahead.

- Vinay Shah:** Thanks for taking my question. Question is for the recent announcement, so how you're taking care of our collection for the gold loan business as well as the MFI business.
- V.P. Nandakumar:** Gold loan, yes. Collections may not be a big difficulty, so what we need is the collection of interest regularly and periodical refreshing of these loans by whatever is the difference in LTV, that has to be remitted, and avail a fresh loan on the same collateral is no issue with us. It is not actually a question of ever greening; it will be a new loan.
- Vinay Shah:** No, no, no. Let me put it differently, I am asking about the entry in period till the time the situation gets normalized and you know people will be rendering cash of multiple of Rs. 500 and Rs. 1000 notes, that would have been general tendency so now how your whatever payments or prepayments are coming in the gold loan as well as MFI business so how we are managing that situation.
- V.P. Nandakumar:** See, these 500 and 1000 notes can be exchanged from the banks and post office. So, the customers will be directed to go to banks and post office. Even an account is not required. What is required are KYC documents, and then the banks exchange these demonetized notes with our currencies. So, I do not think it will create a problem in collection.
- Vinay Shah:** No, so are we accepting that, you are telling that.
- V.P. Nandakumar:** No, no, we are not accepting these demonetized denominations.
- Vinay Shah:** Again I am just putting my question. So if customer is coming for prepayment or scheduled payment and he has cash only for that payment, then what will happen?
- V.P. Nandakumar:** No, he has to go to the bank and exchange with the currencies in force and come for redemption. It will create problem for a week or so or 10 days maximum, by that time I think other things will get relaxed. Now there are some restrictions on withdrawal, but it will get relaxed. Today, when we opened the branches we did not face many problems. Problems were there, but we told them to remit to the bank account whenever it is possible or otherwise we helped them to open some bank accounts, going forward also we will be able to do that. I think it will not pose so much challenge to gold loan business. About microfinance. Mr. Raja Vaidyanathan will be able to tell you something about that what is happening there.
- Raja Vaidyanathan:** For microfinance what we have done is Wednesday and Thursday's collections, we have told them that we will collect it on Friday because we are not authorised to collect the old notes, but simultaneously we have also approached MFIN which has approached RBI, they are meeting today to take a special dispensation if we can collect old notes from them because we are anyway sending the notes to the bank directly, but we do not have that permission yet, if that comes that also we can, start from tomorrow. But in any case from tomorrow these people are going to have the new notes which



are being distributed from today, so we have deferred collections just for 2 days, and tomorrow we are starting collections again from these centers.

**Kapil Krishan:** Plus we have various payment gateways in place, so customers can deposit their money and do a net transfer to us.

**Vinay Shah:** Okay, fair point sir. Thanks a lot.

**Moderator:** We take the next question from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

**Hiren Dasani:** Sir, how much of our disbursements in gold loan business are done in cash and how much it is done through check.

**Kapil Krishan:** 50% is done by cheque.

**Hiren Dasani:** Do you envisage that now with this new thing and obviously you are also promoting the online gold and all, that 50% will go up to 70% - 80% maybe in the next few months.

**Kapil Krishan:** Actually the loans over one lakh have to be made by cheque disbursal, which is this figure. Now the loans below one lakh definitely as the cash economy reduces a lot of them will also get converted to a cheque and bank kind of disbursement, so we do expect the figure to go up.

**Hiren Dasani:** I mean our average ticket size, if I just look at AUM divided by number of customers, which we disclose; it is about Rs. 55,000 - Rs. 56,000. So, are we saying that 50% of the loans are above one lakh rupees?

**Kapil Krishan:** See each customer has an average of around 1.8 loans, so the ticket size is around 31,000 of loan disbursement and by value the amount over one lakh is 50%.

**Hiren Dasani:** And this cheque disbursement is on each loan right not on each...

**Kapil Krishan:** Yes, each loan above one lakh.

**Hiren Dasani:** So, I can have multiple loans but each may be less than one lakh, and I can still get it in cash.

**Kapil Krishan:** Yes, but that is not a material change in the figure.

**Hiren Dasani:** Yes, I am just trying to make it clear that that is how it is, okay.

**Kapil Krishan:** But there are certain rules around that, I mean that is not something that we permit.

- Hiren Dasani:** What is your threshold of PAN card sir if you can just remind me?
- Kapil Krishan:** RBI says 5 lakhs,
- Hiren Dasani:** Loan above 5 lakh rupees.
- Kapil Krishan:** Over 5 lakhs must have PAN card. We have KYC for every customer.
- Hiren Dasani:** But PAN card is needed for 5 lakhs and above as per the RBI.
- Kapil Krishan:** Yes.
- Hiren Dasani:** Okay, sir there is also, I mean at least in some quarters of the market there is a fear that the old gold loan business, there may not be much need because lot of money was anyway in black and that money was being used. So once you do not have that kind of money where do you borrow it against and all that. So, what is your sense of the kind of customer obviously 30,000 – 40,000 is a very small ticket item. So what is the end use usually these people borrow it for.
- V.P. Nandakumar:** We have made a study in the past. What we have seen is around 30% is going to rural-agri market. And about 30% - 35% is being used for the small traders, then micro enterprises, cottage industries, etc., etc. mostly self-employed. So 65% to 70% is going into the productive sectors. Around 30% is going for consumption that is the pattern.
- Hiren Dasani:** Okay.
- V.P. Nandakumar:** About this black money as we have mentioned, the black money coming into the system, into the new gold loan, the scope is very limited as has been already mentioned; the payments are made by check if the loan is over one lakh and multiple loans for the same person for that also we have our own internal system controls.
- Kapil Krishan:** See and the existing stock of gold in the country does not disappear and as we have discussed the unorganised sector has been estimated to be four times larger than the organised sectors. That is a much larger trend that will happen as a result of this.
- Hiren Dasani:** I am sorry; make me understand why people would move from unorganized to organized.
- Kapil Krishan:** So, the unorganized sector will not have things like rules like disbursement in cheque over one lakh, so overall cash economy may go more to the unorganised sector.
- Hiren Dasani:** So you think if the cash economy reduces then...

- Kapil Krishan:** The money lenders who are pawn brokers and the money lender segments, the unorganised sector what we call, that will reduce, that is what we expect and that has been the thinking behind RBI of introducing these notes in bank accounts and trying to remove the informal lending sector.
- Hiren Dasani:** Sure. Among all segments, I mean you should be least worried about the repayment, right, the guy is actually having the jewelry with you, so you can ask him to come with new note and he has to come back, he does not have a choice there.
- V.P. Nandakumar:** Yes, yes, he might delay the payment until the normalcy is restored in the banking system because of recent demonetization. Once it is restored there is no reason why repayments are delayed.
- Hiren Dasani:** Sure. And just lastly like the way MFIN is approaching RBI are the other NBFCs also approaching RBI for let us say temporary waiver where you can collect and deposit into the bank.  
**Raja Vaidyanathan:** Yes, in fact RBI has already allowed the banking correspondents to do the job for the bank.
- Hiren Dasani:** No, I am saying as an NBFC are you approaching RBI, Association of NBFCs or Assets Finance Companies?
- V.P. Nandakumar:** We had a discussion especially amongst the large gold loan companies we had a discussion yesterday, so we are waiting for one more week to see what is happening, is it really causing difficulty, is there any delay in easing out the restrictions, etc..Once we feel like there is an undue delay, then naturally we will approach RBI.
- Hiren Dasani:** Sure. Thank you so much for your answers.
- Moderator:** Thank you. We take the next question from the line of Amit Mantri from 2Point2Capital. Please go ahead.
- Amit Mantri:** Thanks for the opportunity. What is the impact of this measure on the unorganised players; is their share likely to decline because of the demonetization measures?
- V.P. Nandakumar:** The government is aiming at cashless economy, in the modern world of course the scope for cashless economy will definitely go up. The unorganised sector is plying on the strengths of this cash economy so moving into a cashless economy will definitely reduce the scope of business for the unorganised players and another thing in the organised sector because of the transparency, technology, etc., and also lower cost for the product, etc., definitely will impact the customer. Now why do they go to this unorganised sector, mostly because of the lack of awareness of the facilities offered by the organised sector and actually all these years if 2-3 companies were able to build a good loan portfolio in the

country it is mostly because of migration from the unorganized sector So it is likely that the sector will be able to grow at the cost of unorganized sector.

**Amit Mantri:** Okay sir, what would be the size of the unorganised sector compared to the organised sector? Do they get higher LTVs from the unorganised players, do they get 95% of the collateral or what are the other factors that get them to unorganised sectors because clearly the rates that you guys have would be much lower right.

**V.P. Nandakumar:** So, in the organised sector what we feel like is around 65% to 75%, this is a reasonable LTV. So even though we could grant up to 75% of the value as LTV, now our current LTV is about 65%. That shows our intention to do business below this level because after all this is a metal, this is a commodity which is vulnerable to price fluctuation and if prices fall, the players will have to burn their fingers, so this is applicable to anyone. So if they lend say 95% or 100% or 90% they will be risking too much, so the unorganised sector will definitely take the risk, but the customers may not go because lack of credibility, lack of transparency, etc., and higher pricing whereas we offer our products at 18%, 20%, 21% where they offer at anything above 36%, it goes up to 50% etc., and so what we have seen, we have completely stopped granting loans to pawn brokers. Even now RBI also definitely restricts onward lending to pawn brokers. Much before that we stopped lending to pawn brokers because our experience some of them disappear after taking so many pledges and re-pledging with the cooperative banks and other banks and NBFCs they disappear, so this is a common scene in the organized sector, so the credibility is a big issue, which will definitely attract customers to us. So, your first question was about the size, it is only the estimate. It is estimated to be around four times of the entire organised sector including banks.

**Amit Mantri:** Sir Can you also give what are the reasons why currently customers are going towards the unorganised players?

**V.P. Nandakumar:** Excuse me there are lot of other questions in the queue and can we take some other question please, because I requested you to restrict to two questions. Because you know there are lot of other people waiting and there is a time limit.

**Amit Mantri:** Thank you so much.

**Moderator:** Thank you. We take the next question from the line of Sarvesh Gupta from Trivantage. Please go ahead.

**Sarvesh Gupta:** Sir for the next one quarter where you know we see some disruption because of demonetization. You know most of your customers come from an informal segment so since their business activities are also going to be significantly affected because of the entire demonetization would that lead to lower

demand for loans and because you know your product is a very short tenure product, so your fluctuation in AUM can be much higher, so what is your thoughts on that.

**V.P. Nandakumar:** See, no government will come out with a policy to disrupt our rural economy, whatsoever be the reason, I do not think so because the government will have to take into account of their interest so what is done is some of the currencies are demonetarized then being replaced. So some disruptions will be there because of evaporation of the unaccounted economy to some extent, that will be there, but overall any government is duty prone to protect the interest of the rural economy. So there could be some disruptions, but I do not think that it will eat away into our business in a big way.

**Sarvesh Gupta:** Sir, even if the business is shut for say 9 days or 10 days would that mean because you know your entire AUM gets almost renewed in three months so would that mean almost a 10% dip in the AUM itself because there was no disbursement happening for 10 days.

**V.P. Nandakumar:** No, no, no, see there will be some delay in redemption, which is not affecting the interest of a gold loan company. If they have the currency with us they can go to a post office and bank and they can exchange that income for making payment of interest or part-payment. So that redemption may be is little slowed down, maybe for 10 days. I do not see a bad quarter, etc., as on account of that.

**Sarvesh Gupta:** Thank you, Sir.

**Moderator:** Thank you. We take the next question from the line of Naresh Khotariya from Money Growth Investments. Please go ahead.

**Naresh Khotariya:** Congratulations on a great performance, not just financially but on any metric we could track. Just one question, I see that our security costs had been dropping significantly Y-o-Y also marginally Q-o-Q. We have seen attacks on various branches at gold finance companies so just wanted to understand is that prudent to cut down our security costs in the light of all these happenings and we had a big incident in Nagpur or is management doing something to address the situation that we do not compromise on the security aspects of our branches.

**V.P. Nandakumar:** We have addressed that already. For a period in branches, which are below our threshold, limit we had withdrawn this physical security because we relied more on electronic security, but in some of these cases the customers forcefully entered, but now we have addressed that. Hopefully, this will not be repeated.

**Naresh Khotariya:** Okay, alright, thank you.

**Kapil Krishan** Thank you Naresh.

**Moderator:** Thank you. We take the next question from the line of Gopinath Reddy an individual investor. Please go ahead.

**Gopinath Reddy:** Thank you madam. Hello sir, this is regarding the branch expansion of gold loan branches. We have been consistently maintaining the same number of branches from a very long time. I understand that we are trying to increase the loans per branch and using the technology for online gold loaning, but at the same time why not expand branches in the areas where we are not covering, is it because of RBI's obstructing or is there anything else that is stopping us from expanding further.

**V.P. Nandakumar:** RBI is not obstructing us. Once we apply in the necessary format and once we comply with rules of the land, rules of the RBI, RBI definitely give permission, so it is our call. Now we are able to reduce our opex to AUM to much lower levels and we are consistently reducing that quarter by quarter. So the other thing we are looking forward to is a branchless model, this virtual model will definitely facilitate a branchless solution, meaning even with existing number of branches will be able to serve the entire country. Of course, even though we keep the number of branches constant there are some closure of branches and opening in new areas, this will be continuing. So where the business is below a threshold limit, we close that branch and open in a new area where we find the scope. So in this process we tend to cover the entire area. I have mentioned in my brief itself, we are coming out with new products, like E-lockers and other facilities, wallet facilities, etc.. Over a period of time what we dream of is to have a state of art center to store the gold collateral in a centralized place and to offer these loan facilities and everything in an automated system, so this is what we intend to have, hopefully our first E-locker facility will be launched during the current month end.

**Gopinath Reddy:** Sir, NPA in Asirvad, this quarter there is an increase, is it concentrated in a single place or is it widespread kind of a thing.

**V.P. Nandakumar:** There is no increase in NPA in Asirvad.

**Raja Vaidyanathan:** Its 0.17 only. There is no specific instance, they are all collectable which we are seeing. It is only the dues which we are receiving.

**Moderator:** Thank you. We take the next question from the line of Deepak Kumar from Narnolia Securities. Please go ahead.

**Deepak Kumar:** Hi, and congratulation on a good set of number. My question is on your borrowing quarter, what we are planning for this borrowing mix till FY2018 or FY2019.

**Kapil Krishan:** So we think the bank borrowings should be between 50% and 60% and the rest should be from the money market either from NCD or CP. As you know the average asset side tenure is hardly 60 days so we are very comfortable even if we take some shorter-term fund, which are at a lower cost.



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**Deepak Kumar:** Thank you.

**Moderator:** Thank you. That was the last question. I now hand the floor over to the management for their closing comments. Over to you!

**Kapil Krishan:** I would like to thank everyone for joining the call and look forward to seeing you all again.

**Moderator:** Thank you on behalf of Kotak Securities that concludes this conference. Thank you for joining us, you may now disconnect your line.