



“Manappuram Finance Limited Q3 FY2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Manappuram Finance Q3 FY2018 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 an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to 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 all of you. Thanks for taking out time and attending this call. Today, we have with us the entire management team from Manappuram Finance. We have Mr. Nandakumar who is the MD & CEO, we have Kapil Krishnan who is the group CFO and we have Mr. Raja Vaidyanathan representing Asirvad Microfinance. Without wasting any further time I will hand over to Kapil. Kapil, over to you!

Kapil Krishnan: Thank you Digant. Ladies and gentlemen, welcome to Manappuram’s Q3 FY18 conference call. For the quarter ended December 2017 our consolidated AUM stood at 14650 Crore, which is up 6.8% on the previous quarter and up 0.7% year-on-year.

Our consolidated income from operations was Rs.873 Crores, which is up 5.2% Q-on-Q, consolidated profit after tax and minority interest was Rs.173.34 Crores compared with 160.37 Crores in Q2, an increase of 8.1% Q-on-Q. The standalone profit stood at Rs.172.7 Crores, which was up by 1.5% Q-on-Q.

Our gold holdings were 62.3 tonnes as at the quarter end, this is up 4.2% Q-on-Q. Our total number of gold loan customers stood at 22.18 lakhs. The gold loan book was Rs.11327 Crores, which is up 5.3% Q-on-Q. Auctions during the quarter were Rs.84 Crores. As you are aware we follow the policy of making regular auctions on overdue accounts.

Our weighted average LTV stood at Rs.1818 or 67% of the current gold price. Our interest accrued was Rs.297.32 Crores that is 2.6% of the gold loan AUM compared with 3.4% a year ago. Gold loan disbursements during the quarter were Rs.16164 Crores. The online gold loan book accounted for 25.1% of the total compared to 17% in the previous quarter.

Asirvad Microfinance had a closing AUM of Rs.2112 Crores, up 7.5% Q-on-Q. For Q3, the company made a profit of 36 lakhs compared with 11.5 Crores loss in Q2 FY2018. The company had made a provision of 31 Crores in the quarter for doubtful loans. We have consistently followed a policy of providing fully for loans over 120 days and 50% for loans due between 90 and 120 days. As a result we have provided 26 Crores above the amount stipulated by RBI.

Disbursements in the quarter were Rs.688 Crores. All the disbursements are now made through bank accounts directly to the customer. Asirvad had 13.95 lakh customers, 830 branches, 4093 employees. We are now present in 19 states and union territories and are now the fifth largest NBFC MFI. The company had a capital adequacy of 17.25%.

The home loan business had a book of 342 Crores and they operate now from 35 branches. The vehicles financing book stood at Rs.500 Crores and they operate from 73 locations. New businesses put together now account for 22.6% of the consolidated AUM. The consolidated financing cost was Rs.257 Crores, average cost of borrowing during the quarter declined by 26 basis points Q-on-Q and stood at 8.56%. This has declined 130 basis points year-on-year and 207 basis points in the last two years.

Employee cost increased 3.4% to Rs.159.6 Crores. Consolidated headcount was 24,761. There is a 4.3% Q-on-Q increase in administrative cost to Rs.141.1 Crores, depreciation cost was 17.39 Crores. Overall number of gold loan branches gold loan branches was stable at 3318. Provisions and write offs for the standalone entity during the quarter were Rs.8.09 Crores, gross NPA was 0.7% during the quarter.

The consolidated net worth of the company stood at Rs.3699 Crores. Book value per share was 43.93. Interim dividend of 50 paisa that was declared by the board. The capital adequacy of the company stood at 27.88%. Consolidated borrowings were Rs.11510 Crores. With this update on the financials I now request our Promoter and Managing Director, Mr. Nandakumar to share his views on our overall business.

V.P. Nandakumar:

Thank you Kapil. Thank you all for joining us today to discuss our Q3 results. Kapil has already covered all the key numbers. I will restrict myself to gateway a few or highlighting some of the aspects of our performance, which I believe at the point is to where we are headed for. Following demonetisation November 2016, we went through two-three quarters of no growth. One of the key reasons for the slowdown in our growth following demonetisation was its impact on the unorganized sector leading to weakness in demand. The trend was arrested in the last quarter that is Q3 when we reported a modest Q-on-Q growth of 2.6% in consolidated AUM. The near normal monsoon this year has helped our performance and strengthened the growth over the last quarter. The consolidated AUM went up by 6.8% compared to Q2. Our gold loan business also has recovered fastly with the portfolio showing a healthy 5.3% growth over the previous quarter. Aggregate gold loan disbursements during the quarter went up by 26% to nearly 16204 from about 12800 Crores in the previous Q2.

Reflecting the improved business condition our consolidated net profit during this quarter increased by 8.2% to 173.34 Crores compared to the previous quarter figure of 160.1 Crores. Significantly our microfinance subsidiary Asirvad also turned the corner and they turned the corner with a marginal

profit of 0.36 Crores as against a loss of 11.56 Crores in Q2. Our policy of conservative accounting means that the provision of Rs.31 Crores that Asirvad has made towards the doubtful debt is 26 Crores more than the amount required under the RBI loans.

MFIs in India were of course badly affected by demonetisation and the disruption to the cash economy however has reduced by our Q3 performance. These issues are now firmly behind us importantly with the union budget announcing higher minimum support prices to farmers along with the pronounced stress to reviving the rural economy, the serious step for revival in the fortunes of rural India, which augurs well for both gold loan and microfinance like. We also continue to make impressive progress with our OGL or online gold loans now accounts for around 25% of our total gold loan book compared to 17% in Q2 and 12.4% in Q1.

We began diversifying our portfolio in 2014. In the nearly four years in our non-gold business such as microfinance, home, commercial vehicle loans have taken off well and now contribute 22.6% of our consolidated AUM up from 15.7% a year ago. Finally, our average cost of borrowing continued to decline falling by 26 basis points to 8.56% it is remarkable that our average borrowing cost has fallen by 130 basis points Y-on-Y and 207 basis points in the last two years. Thank you the floor is now open for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Parag Jariwala from WhiteOak Capital. Please go ahead.

Parag Jariwala: Thanks for the question. My question is on growth, so this quarter has been extremely impressive in terms of quarter-on-quarter growth, as you highlighted in your remarks as well, but let us say for a full year of FY2019 or going forward how do we see trajectory especially in the main gold loan business that is one and secondly the improved demand, which we have seen right now is coming through what sources because what I can see plainly is that there has been some pressure on margin though on quarter-on-quarter basis, so is that that the high tickets in gold loan or online gold, which is slightly subsidized versus the individual loans, are we getting more growth on those sides, overall picture from big sources, how you are dealing this loan growth, etc.?

V.P. Nandakumar: The gold loan business is maintained at the compounded annual growth can be between 10% and 15% it is possible. The last year was a peculiar year because of what all happens to the economy we know especially to the rural economy is the demonetisation, I have been telling that because of that, there was some disruption in the working capital of our customer base, so that has to be revived that is the reason for they did not have money, we also did not have currency in our branches to disperse the loan. Major part of the business is in cash, so that has affected the dispersal very much. Then followed by that the customers are unable to service the loan, we did not postpone the auction, etc., everything

has continued as usual, so this has led to some degrowth during the first quarter. The second quarter degrowth was arrested, there was some minor growth and the third quarter we have improved. I am hopeful of maintaining this tempo in the last quarter also and regarding the yield there is not much reduction. A little compression is there because in the OGL there will be slight yield compression only that is, but we are hopeful of maintaining that about 24% in the coming quarter also.

Parag Jariwala: The new card rate loans what proportion is considered over the book? The online gold loan, which you subsidize what is the overall proportionate?

V.P. Nandakumar: There is no much subsidization. There is less like subsidization. 25% of total gold loan, this is online gold loan, so the reduction is very, very minimal. We are hopeful of maintaining the yield around 24%.

Parag Jariwala: There was a press release regarding the board meeting for some acquisition related things if you can highlight what exactly you are looking?

V.P. Nandakumar: There were some investment proposals, which are usually discussed, but it did not go through the board.

Parag Jariwala: Investment proposal for buy outside the company?

V.P. Nandakumar: Yeah, Some new investment by the company.

Parag Jariwala: Thanks Kapil.

Moderator: Thank you. We take the next question from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

Anil Tulsiram: Thanks for taking my question. My first question is on the gold finance in the past we have spoken many times about huge market opportunity for gold finance in terms of 20000 tonnes of gold available. My question is then why we are not increasing the absolute number of branches about the last few years, what is happening is at best we are closing down few branches in South and opening few branches in North and East and even our listed peer has also not increased the branches, so the question is without increasing branches can you grow at 10% to 15% CAGR?

V.P. Nandakumar: Our retail assessment is there is potential left even in the branches opened, so even though we are not increasing the number of branches. We are closing down some of the branches, which are not profitable or where there is less concentration of branches and opening branches in places where there is scope so we are not adding the branches not correct way we are adding as well as closing down the branches. So we believe that the potential what we aim at from a branch can be ascertained even with

the same number of branches for some more time that is why we are not increasing the number, there is no net increase in the number of branches. You mentioned about 20000 tonnes of gold, but again the competition will always be there, may not be through gold loan alone other products are also, so what I maintain personally is even with the competition or whatever is CAGR of 10% to 15% in some years of higher demand even higher growth is possible now in the new budget a lot of money may flow into the rural economy as far as the budget we plans, etc., which will definitely push the demand so also the demand for gold loan, so we believe that with renewed figure in the rural economy we will be able to cash on.

Anil Tulsiram: Second question is private sector banks in the past have grown at 20%, 25% CAGR, which is about 2 to 2.5 times of the nominal GDP growth rate whereas we are growing and giving guidance of 10% to 15%, which is around 1 to 1.5 times of nominal GDP growth rate is it because private sector banks are gaining market share from PSU and unorganized sector adding the gold finance it is not possible to gain market share from PSU and unorganized sector?

V.P. Nandakumar: We also maintain that we will grow at CAGR of 20%.

Anil Tulsiram: I am asking for gold?

V.P. Nandakumar: The rest may come from non-gold. We may grow at CAGR of 20%, we are hopeful to maintain that. The new businesses yes these are becoming more stable the technology everything is come to the place, so we look forward to maintain the 20% through the growth in non-gold and growth potential will be much higher because we have created the infrastructure, which has to be utilized. With all these we may be able to maintain that.

Anil Tulsiram: The last question is based on the gold finance is it correct to say that the gold finance growth rate is entirely dependent on the economic growth and it is not possible for us to gain market share only for gold from PSU and unorganized sector is it possible to gain market share?

V.P. Nandakumar: The growth may come from the unorganized sector and also from new customers who are new to the market those also is possible from both sectors.

Anil Tulsiram: Sir one last question is over the last 12 to 18 months many banks have acquired microfinance companies and they are expanding aggressively into microfinance and over the last one year RBI has given tremendous relaxation in business correspondent and the bank branch guidelines, which will enable them to open small, small branches and expand more aggressively, so do you think to compete with the banks in the microfinance with high cost of funds and regulatory disadvantage?

Raja Vaidyanathan: Good evening. Asirvad currently has 830 branches spread over 19 states and we have now recently opened in Assam and we have already the capacity to increase our membership from 14 lakhs to

about 20 lakhs, although there are many new banking correspondents coming in, new banks entering we have a clear head start on this and I do not think that is a big competition to us and we are already the third in terms of pricing we are the third lowest in the market, so all these are big advantages for us.

Anil Tulsiram:

Thank you. That is it from my side.

Moderator:

Thank you. We take the next question from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua:

Firstly can we understand, which are the products like in one of your questions you mentioning that there has been some reason why there is slow down also in gold is because probably some other products obviously are replacing gold, so firstly can we understand what are these and what are the yields that are there in these products compared to us and can we may be lower our yield and probably that could be a better way to grow, secondly in the other segments that we have already successfully moved to a non-gold book as well as over there how is the ticket size and how is the strategy there in terms of where are we really focusing here?

V.P. Nandakumar:

See the competition come from unsecured loans, etc., through the Fintech company, which can offer some competition, our new areas of thrust into affordable housing, microfinance, commercial vehicle finance and two wheelers.

Ritika Dua:

Sure Sir that is clear but then Sir firstly on the FinTech portion?

V.P. Nandakumar:

These unsecured SME loans can offer some competition to gold loan.

Ritika Dua:

Are we saying that so far it is more about demand not like it is more about the demand not there and not that already some other products have taken away the market share?

V.P. Nandakumar:

No wherever demand is there we are using that and we are hopeful of growing at 10% to 15% year-on-year. It could have been more if these products are not there.

Ritika Dua:

Secondly coming back again to the other four segments that we have again successfully ventured into so can we just understand something some more detail after what are the kind of customer base, which is there in these four products, housing, vehicle, etc., MFI is very clear obviously the segmented would be in, but then may be in housing and vehicle who are the customers that we are catering to and the ticket size and the yields at the moment for them?

V.P. Nandakumar:

Partly MFI also the customer profile is more or less the same. In affordable housing we have portfolio of around Rs.300 Crores where the average ticket size is around Rs.11 lakhs. In CV business we are

around Rs.500 Crores where the average ticket size is around Rs.6 lakh. Two-wheeler we have just started, our portfolio is around Rs.30 Crores now where the average ticket size is around Rs.35000.

Ritika Dua: Great Sir. That is it from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Omkar Kulkarni, an Individual Investor. Please go ahead.

Omkar Kulkarni: You said the Q4 should be better than the Q3 what about Q4 of FY2016-2017 versus Q4 of FY2017-2018 I am talking about the year-on-year?

Kapil Krishnan: So basically what happened is that as you know the market condition changed substantially and in Q4 last year we still had the benefit of the earlier growth as you know the average AUM grows and then the benefit comes in the subsequent quarters same way we had a decline due to demonetisation the full impact was not there in Q4 last year. We do not give quarter-on-quarter guidance so we would not like to comment on the specific numbers as such, but the overall trend as you can see is now going upward only.

Omkar Kulkarni: Because the base should have been lowered right in Q4?

Kapil Krishnan: Q4 of last year.

Omkar Kulkarni: Because of demonetisation?

Kapil Krishnan: See the demonetisation came somewhere in the middle of Q3, so the full impact was not played out in Q4 because as you know we auctioned in the subsequent quarter actually, so therefore it is not absolute like-to-like comparison.

Omkar Kulkarni: The full impact was started from Q1?

Kapil Krishnan: That is right and after that it has been improving in every quarter and we expect that trend to continue.

Omkar Kulkarni: The investment proposal MD has been designated to further discuss about this like what is that?

Kapil Krishnan: So there were various investments and investment has to be decided in a physical board meeting so there were a couple of investments and board together to discuss them. As and when they fructify we are obliged to make the announcement to the investors and to the stock exchange, so as of now there is nothing to announce.

- Omkar Kulkarni:** Because the speculation is going on that company has been looking for buy out or someone has been looking to buy out the company?
- Kapil Krishnan:** No this as we clarified in the earlier question is outward investment.
- Omkar Kulkarni:** Capital adequacy is quite healthy and the growth is not that much so is it possible to increase the payout ratio?
- Kapil Krishnan:** Payout ratio is close to 30%, which is very healthy and comparable to similar companies. We are in a growth phase. It is not that we are not looking at growth so it is better to pay out the money. As you already discussed, we are growing every quarter and this trend will continue we are going to grow at, at least 20% AUM on a consolidated basis. So we need the capital.
- Omkar Kulkarni:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Ramesh Rachuri from Fine Capital. Please go ahead.
- Ramesh Rachuri:** Good evening Sir and congratulations for hosting a better set of numbers in Asirvad. I had two questions pertaining to Asirvad. So if you could provide the breakup of interest income and other operating income. Secondly, last March you had grown at 14.35% growth for Asirvad. So this March quarter, what is the target and secondly in certain states are you still seeing credit issues like others are pointing out? States like Madhya Pradesh, which you have also covered; there have been some issues.
- Raja Vaidyanathan:** The breakup of the operating income I think it has already been circulated this time. I think anyway I will check, YTD I think it is 284 Crores for some operations and 30 Crores from other income as against 216 Crores revenue from last year and 29 crore of other operating income. So it is more or less the same. On the growth, we had this year I think we have grown, we started the year at 1796 Crores, we are at close to 2122 Crores right now and we should in all probabilities have growth at about 25% to 28% by the end of March 2019.
- Ramesh Rachuri:** Credit issues.
- Raja Vaidyanathan:** Credit issues by and large I think it has settled down all over India other than some pockets in Karnataka and Haryana. Madhya Pradesh we do not have any issues. In fact, since January 2017 our static pool collections are as high as 99.1%. So that is well behind us now.
- Ramesh Rachuri:** Thank you.

- Moderator:** Thank you. We take the next question from the line of Jaiprakash Toshniwal from IFL. Please go ahead.
- Jaiprakash Toshniwal:** Hi Sir. This is Jaiprakash from India First Life. Thanks for taking my question. Sir what is the capital in future we are looking for my microfinance business in next two years?
- Kapil Krishnan:** Capital adequacy is currently 17.5% and the business will be growing so we will invest the amount required maybe between 100 and 200 Crores.
- Jaiprakash Toshniwal:** Current borrowing book of 1830 Crores what could be the breakup in terms of NCDs or term loans?
- Kapil Krishnan:** Mr. Vaidyanathan, it is for Asirvad.
- Raja Vaidyanathan:** Okay. I will give you that. We have 30% bank loan, NBFC is around 11% and NCDs on 30%.
- Jaiprakash Toshniwal:** On the vehicle finance book sir, can you just elaborate like is that used vehicles or only CV or LCVs. What kind of portfolio this is?
- V.P. Nandakumar:** These are mostly used commercial vehicle, but the majority is heavy commercial vehicles and the balance is light commercial vehicles, mostly used.
- Jaiprakash Toshniwal:** Other loans, 369 Crores, as you mentioned two-wheelers only 30 Crores, is there very small, small loans account here or any different product you are trying to, with a big product in this line item?
- V.P. Nandakumar:** This 369 is lending to NBFC, we lend to other companies mostly investment grade credit rating other NBFC, that is the 369 Crores.
- Jaiprakash Toshniwal:** Thanks all the best.
- Moderator:** Thank you. We will take the next question from the line of Trupti Agarwal from White Oak Capital. Please go ahead.
- Trupti Agarwal:** Thank you for the opportunity Sir. I have few clarifications that I need. I think I heard in the opening remarks that all the disbursements now currently are through bank accounts, 100% of our disbursement of gold finance. Is this Asirvad or was it for gold loan?
- Kapil Krishnan:** It is for Asirvad
- Trupti Agarwal:** Okay. That is one clarification. Number two I just wanted to know what is the average ticket size for our housing loan book?

- Kapil Krishnan:** 11 lakhs.
- Trupti Agarwal:** 11 lakhs?
- Kapil Krishnan:** Yes.
- Trupti Agarwal:** Okay sir. Sir just one last question just wanted to know if we track the cross selling that we are doing among the customers for our different products, is there any metric, do we track that number?
- V.P. Nandakumar:** We have strengthened that during the current year, especially for distribution of our insurance products. We have 100% insurance working subsidiary. Now most of the cross selling is taking place in this insurer's product, mainly general insurance and health insurance, the other products of course the two wheeler we have started around 50% of the customers in two-wheelers are common in gold loan as well as two-wheeler, around 20% of commercial vehicle customers are common in gold loan and commercial vehicles.
- Trupti Agarwal:** Got it Sir. Thank you Sir.
- V.P. Nandakumar:** We are strengthening our cross-sell platform.
- Trupti Agarwal:** Sure Sir. Thank you Sir. That's it from my side.
- Moderator:** Thank you. We take the next question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** Two questions, one was if you could give us some guidance on how the cost to income ratio would kind of trend up from here and the second was on GNPL it is a vehicle finance business, I believe it has gone up from 1.9% to 3.5% quarter-on-quarter?
- Kapil Krishnan:** The opex to AUM is the way we look at it. We are expecting significant savings on the amount we spend on the security guards in FY2019. We are in the midst of implementing various technology solutions, which will enable us to reduce the investment on guards. So that can be a significant saving. We do not want to give a specific guidance but the fact is that the expenditure went up during the demonetisation time and it should come back to the earlier levels in a few quarters.
- Nishchint Chawathe:** The ratio of expenses of guard to the overall expenses would be like how much?
- Kapil Krishnan:** So that is disclosed we are spending around 45 Crores a quarter now, which was earlier around 25 crores. Your second question, could you just remind?

- Nishchint Chawathe:** The second was on vehicle finance NPA, which I think have gone up quarter-on-quarter.
- V.P. Nandakumar:** Vehicle finance NPA has gone up, it will be brought under control, compared to market our NPA level will be lower than the market expectation.
- Nishchint Chawathe:** This was a quarterly wise, the actually the industry did quite well, I think your growth numbers also speak the same, but we were little surprised that the GNPL has actually gone up, it has kind of gone up from 2% to 3.5%
- V.P. Nandakumar:** But I can tell you that NPA will be contained at a reasonable level well below the market.
- Nishchint Chawathe:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Kunal Shah from Edelweiss. Please go ahead.
- Prakhar:** This is Prakhar couple of questions, first, what is our PaR portfolio in MFI business?
- Raja Vaidyanathan:** What is the question?
- Prakhar:** PaR in MFI business.
- Raja Vaidyanathan:** 0.52% is our net NPA now and the gross is about 3.8%
- Prakhar:** No sir I was asking portfolio at risk in a single day delayed portfolio, last time you gave a number of around 127 odd Crores wherein we said that large chunk of that will be recovered and we had only provision requirement of 15 or 16 odd Crores. Sir just wanted to get some sense on how that portfolio has moved and is there any increased provision requirement in that?
- Raja Vaidyanathan:** The total PaR has really come down about 11 to 12 Crores this quarter so to that extent and as we mentioned we had already provided for close to 141 Crores from April to December so we do not foresee anything more than what we had projected earlier.
- Prakhar:** What was the interest income reversal in this MFI business this quarter?
- Raja Vaidyanathan:** The income de-recognition was 13 Crores.
- Prakhar:** Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Sameer Dalal from Natvarlal and Sons. Please go ahead.

- Sameer Dalal:** My question was similar to the previous one, you know the gross NPAs went up. If you see QOQ basis for the microfinance business has gone up to 3.8%. Any particular reason why they have risen which pocket has been struggling for the microfinance business?
- Raja Vaidyanathan:** No it is the 90 days since the last quarter some of this has moved from 90 to 120 number that is the reason it has moved to 2.8% to 3.8%. It is the same five stock states which we said the same, Karnataka, Uttar Pradesh, Haryana, Jharkhand and Tamil Nadu. These are the five states. NPAs are now totally sell down and after we have provided them we do not expect anything majorly in the coming quarter.
- Sameer Dalal:** Okay, further if we take the question, now the fresh loans that you are giving out on the MFI business, what is the kind of the NPAs you are facing on the fresh loans that have been given out over the last six months ago or nine months ago?
- Raja Vaidyanathan:** I will tell you two things. In the last 12 months we had given 2600 Crores and we have collection efficiency of 99.04% and in the last since April to December our collection efficiency is as high as 99.5%
- Sameer Dalal:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much Sir. Sir just one small question. Sir anything on your cost of borrowing outlook?
- Kapil Krishnan:** We still have savings possible in our NCD book because the existing NCDs are at the legacy cost. As they mature even if you rollover at the current prices we will be seeing a saving and overall we will adopt all kind of strategies to contain the cost at similar level. As you know, right now in Q4 the markets are bit tight, but they may ease off in Q1, and we do not expect any significant increase definitely.
- Deepak Poddar:** Overall as you have already mentioned that yield you are looking to maintain and cost of borrowing kind of trying to reduce and maintain so overall spreads is what you are looking to maintain?
- Kapil Krishnan:** Yes.
- Deepak Poddar:** That is it on my side. Thank you very much.

- Moderator:** Thank you. We take the next question from the line of Harshal Gandhi from JHP Securities. Please go ahead.
- Harshal Gandhi:** Sir I have two questions. Sir, what were the gross NPA for housing finance?
- Kapil Krishnan:** Around 3%.
- Harshal Gandhi:** Sir the target for FY2018 and 2019, at what level do you plan to bring them down?
- VP Nandakumar:** We need to bring it on par with the industry.
- Harshal Gandhi:** Would it be around 2% or so?
- Kapil Krishnan:** Yes, it should come down.
- Harshal Gandhi:** Sir can you give the breakup for other expenses?
- Kapil Krishnan:** Can you take that offline? I do not know which head you are talking of.
- Harshal Gandhi:** Other expenses in which advertisement, security and rent?
- Kapil Krishnan:** Mainly security is around 45 Crores, rent is 29 Crores and advertisement is 11 Crores.
- Harshal Gandhi:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Jaiprakash Toshniwal from IndiaFirst Life. Please go ahead.
- Jaiprakash Toshniwal:** This is again on the other loans which you have 369 Crores, you mentioned about some loans to NBFC what is the book size there and what is the spread on those loans?
- Kapil Krishnan:** The average yield is around 14%, cost of funds as you know is the corporate cost of funds is up so there is a spread of almost 5.5% there.
- Jaiprakash Toshniwal:** What is the book size?
- Kapil Krishnan:** Around 330 Crores.
- Jaiprakash Toshniwal:** Thank you.

- Moderator:** Thank you. We take the next question from the line of Shekhar Mundra, an individual investor. Please go ahead.
- Shekhar Mundra:** I wanted to understand why is the employee benefit expense increased greatly like year-on-year from 125 Crores to 160 Crores?
- V.P. Nandakumar:** There are two reasons, one of them minimum salary level has gone up. The second is some of the new verticals formed. So for that we need to increase staff spend, these are the major two reasons.
- Shekhar Mundra:** Okay if you want to break it up like percentage wise, it is around a jump of 25 to 27%, so what is the percentage increase in salary?
- V.P. Nandakumar:** One more component is the normal increment we will try to give.
- Kapil Krishnan:** Basically the staffs expense has gone as he explained and normal increments plus we have yet to add staff for some of the businesses like two-wheeler business, which are in our investment phase right now and they will give a significant return as we go forward. So if you want exact breakup a year ago, it is gone up by around 3000 the number of employees.
- Shekhar Mundra:** Okay and coming to the microfinance business we had provision of 31 Crores, it is mainly due to demonetisation.
- Kapil Krishnan:** Yes.
- Shekhar Mundra:** So when do we see these results, I mean, how many quarters do we see this provision part going off, the effects of demonetisation coming off?
- V.P. Nandakumar:** They are already at the realm. There maybe another month or two months, it would not as high as this 31 and all that, we are talking about a very small number. We have already shown profit this quarter, the profits will continue the next quarter also, but there will be a small provision on demonetization.
- Shekhar Mundra:** Can do we say then the subsequent quarter the provisions reversing?
- V.P. Nandakumar:** In fact we on a conservative basis done this and the effort is on to collect this. It is always expectation that we are going to collect at least about 15% to 20% of this. So when that comes it will be a direct addition to the cost.
- Shekhar Mundra:** So you mean to say as in the loans, which return off due to demonetization you expect around 30% of it coming back?

- V.P. Nandakumar:** Not 30%, we are hoping to, there is a separate team which is working on that and because of the credit bureau restrictions most of the people would definitely pay us otherwise they do not get loan from any other institution. So we expect as in course of time at least about 20% of this will be paid that is our expectation.
- Shekhar Mundra:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Maan Vardhan Baid from Laurel Advisory. Please go ahead.
- Maan Vardhan Baid:** Thank you for the call Sir. Sir can you tell me two things, one around NPA in the home loan business and two with the management rejig is this transition in the home loan business complete, are we now comfortable with our team and looking forward for that business?
- V.P. Nandakumar:** The NPA in the home loan business is around 3%. The new team has come with the experience of team is there so the things have improved so much and the results will be available during next year.
- Maan Vardhan Baid:** What is the segment that we are focusing in the home loan business that is what we are looking forward?
- V.P. Nandakumar:** It will be remain the same, it is affordable housing, the average ticket size is around 11 lakhs, it will hover around that.
- Maan Vardhan Baid:** Largely salaried or non-salaried?
- V.P. Nandakumar:** Both salaried plus self-employed.
- Maan Vardhan Baid:** What is the breakup between salaried and self-employed?
- V.P. Nandakumar:** Around 20% salaried, the balance 80% self-employed.
- Maan Vardhan Baid:** Okay, is this the ratio that we are looking to maintain as we go ahead?
- V.P. Nandakumar:** Yes more or less same.
- Maan Vardhan Baid:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Siji Philip from Axis Securities. Please go ahead.

- Siji Philip:** Good evening Sir. I just have one question in the stress that we have seen housing finance portfolio so where are the stress basically and which of the states do we see it more?
- V.P. Nandakumar:** It is mainly with Maharashtra and Tamil Nadu.
- Siji Philip:** So out of six states that we have, Maharashtra and Tamil Nadu contributes?
- V.P. Nandakumar:** Yes Maharashtra, Karnataka and then Tamil Nadu, Kerala also we have some presence, we have entered into Gujarat. These are the major states, Andhra and Telangana also.
- Siji Philip:** Are we slowing down our growth in this segment?
- V.P. Nandakumar:** Not at all. Six months back, that is from June onwards, we changed the leadership there, a new team who is more vibrant as well as experienced in home finance industry have joined. They took some time to get stabilised, now everything is stabilised and we are hopeful of going strong.
- Siji Philip:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.
- Manisha Porwal:** Good evening Sir. Sir, two questions, first is on the investments, Sir I am not sure if you said your investment proposals to the board it was rejected or the board gave you a kind of authority to decide for the new investment going ahead, how was that?
- V.P. Nandakumar:** Investment proposals are always there. Definitely one option for growth is inorganic. So investment proposals are always there. We have not finalised on anything. Discussions will be on in the times to come also, the board has authorized me as MD to have some negotiations then we will take it to the board.
- Manisha Porwal:** Okay, so there was nothing that was proposed and got rejected right?
- V.P. Nandakumar:** No proposal has been actually finalised to be presented to the board. The board has given some options, if opportunities are there in the same field where we are.
- Manisha Porwal:** Okay, so it will be in the same field where you are and there will be no new product?
- Kapil Krishnan:** Not new product.

- Manisha Porwal:** Second question is Sir, you in your initial remarks mentioned that rural thrust of budget is going to benefit the gold business also but as per your slide I could see in the rural urban mix shows only 11% of your business come from rural area?
- V.P. Nandakumar:** Rural includes semi-urban area also where around 30% of our branches are. Even in the cities these are at the periphery, which is more semi-urban.
- Manisha Porwal:** Okay that would not mean that you will go more rural and open more branches, because on the branch expansion I believe you said?
- V.P. Nandakumar:** And also all these will definitely boost the demand. Our business is mostly semi-urban and rural like two-wheeler, commercial vehicle, gold loan, micro finances, etc. So we expect the benefit out of this rural and semi-urban thrust.
- Manisha Porwal:** Okay I am just asking like have we revised rather I can ask for FY19 what kind of growth do you expect?
- V.P. Nandakumar:** I used to maintain around 20% CAGR in the consolidated I still maintain that.
- Manisha Porwal:** Okay fine. Thanks. That is it Sir.
- Moderator:** Thank you. We will take the next question from the line of Ritika Dua from Elara Capital. Please go ahead.
- Ritika Dua:** Sir, my apologies, but if you can just repeat the cross sell numbers which you had shared with another person on the call?
- Kapil Krishnan:** What we said is we have an insurance broking subsidiary where there is a lot of cross sell potential and this is a constant effort on our part to keep cross selling. We have also launched certain new products like may be two-wheeler loans as there is a lot of synergy between our customer segment and that. So it is a constant effort and there is no proper metric right now. As you know we are still seeding these new businesses, they are growing based on their own customer efforts, and also the cross sell efforts and is growing hand-in-hand. So it is constant effort that goes on.
- Ritika Dua:** Sir if I am not wrong you did not mention anywhere that you know already there is a bit of an overlap between some customer base that will be successful already some products being cross-sold, some gold customers already being cross-sold on?
- V.P. Nandakumar:** There is commonality between these two businesses with regard to customers. In two-wheeler I mentioned around 50% actually of common customers, in CV around 20%, in affordable housing

around 10% of the customers are common, so why do they come because they are the customers of Manappuram already, so even though it is not actually through cross sell, these customers having known that Manappuram has started this, they will come and availed. So now having seen that so we want to give lot of stress to cross-sell we have set up an infrastructure for that and we are readying ourselves to launch this cross-sell in relatively bigger way.

Ritika Dua: Great Sir. Thank you so much Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Digant Haria from Antique Stock Broking for closing comments.

Digant Haria: Thank you to the management and to all the investor for attending the call. Have a pleasant evening. Thank you very much.

Kapil Krishnan: Thank you very much Digant and to all the people who have joined the call.

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