



# “Manappuram Finance Limited Q4 FY 2017 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to Manappuram Finance Limited Q4 FY2017 earnings conference call, hosted by Daiwa Capital Markets India Private 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. Punit Srivastava from Daiwa Capital. Thank you and over to you Sir!

**Punit Srivastava:** Thanks Janis. Good evening everyone. Welcome to earnings call for Manappuram. We have on call Mr. V.P. Nandakumar, Managing Director and CEO, Mr. Kapil Krishnan, CFO and also Mr. Raja Vaidyanathan, Founder and MD of the Asirvad Microfinance Limited to discuss the results. Over to you Sir!

**Kapil Krishan:** Thank you Punit. Ladies and gentlemen welcome to Manappuram’s Q4 FY2017 conference call. For the quarter ended March 2017 our consolidated AUM stood at Rs.13657 Crores, which is up 19.5% year-on-year, and it has a decline of 6.2% from the previous quarter.

Our consolidated income from operations was 898.8 Crores which is up 37.7% year-on-year. Consolidated profit after tax was 200.6 Crores compared with 202.5 Crores in Q3, which is up 53.5% year-on-year and almost flat from the previous quarter.

For the full year our consolidated PAT was 755.8 Crores which is up 114% over the previous year. Our gold holdings were 61.1 tonnes as at the quarter end. This is up 2.4% year-on-year. Total number of gold customers was 21.45 lakhs. New customer addition was 3.9 lakhs. Total gold loan book was 11125 Crores which is up 10.4% year-on-year.

Auctions during the quarter were a bit higher at 789 Crores. As you are aware we have a policy of making regular auctions on overdue accounts and we had to postpone auctions from Q3, which we had discussed in our previous call. So that is why the auctions were higher this quarter.

Our weighted average LTV was Rs.1824, which is 67% of the current gold price. Our interest accrued was 294.5 Crores, which is 2.6% of the gold loan AUM compared with interest accrued of 3.4% a year ago. Gold loan disbursements during the quarter were 12299 Crores compared with 12060 Crores in the previous quarter. The online gold loan book accounted for 11.9% of the total gold loan book compared with 9.7% in Q3.

Asirvad Microfinance had a closing AUM of Rs.1796 Crores, which is 8.8% increase QOQ and 79.8% year-on-year. For FY2017 the Company made a profit of 34.3 Crores which is 43.4% higher than the profit of the previous year.

In Q4 the Company after provisions for overdue accounts made a loss of 7.47 Crores. The Company made a provision of Rs.52.2 Crores for the full year for the overdue accounts. We follow a practice of providing fully for loans, which are overdue over 120 days and 50% of loans, which are due between 90 and 120 days. This is over and above the RBI stipulation as you know and we have provided 11.8 Crores above what we were required if we had followed the RBI policy.

Our disbursements there are now back to the pre-demonetisation levels. They had a 11.97 lakhs customers, 763 branches, 3861 employees and earned an ROA of 2.46% for the full year. We are now present in 17 States and Union Territories. 55% of the AUM is from new states that it has entered to after we took the Company. It has a capital adequacy of 20.6%.

Home loan business had a total book of 310 Crores, which is up 18% QOQ. They operate from 35 branches. Our commercial vehicle book stood at 305.8 Crores up 22% QOQ. They operate from 50 locations. These businesses are growing at a steady pace. Consolidated financing cost was 290.4 Crores. Our average cost of borrowing came down further by 16 basis points to 9.7%. This was down 75-basis points year-on-year and 226-basis points in the last two years.

Incremental cost of borrowing is 8.7%. Our employee cost was flat at 125.4 Crores. Consolidated headcount stood at 22112. There was a 30% increase in the administrative cost mainly due to security guard salaries. Depreciation cost increased marginally to 16.1 Crores. Overall number of gold loan branches was stable at 3293.

Provisions and write offs for the standalone entity during the quarter was at 0.8 Crores. As you know in Manappuram Finance we recognize NPAs at 90 days, which is ahead of the 120-day requirement of RBI.

Our gross NPAs declined to 2% in the quarter compared to 2.3% in the previous quarter. There was an increase in auctions as we had discussed mainly due to some pending auctions in Q3 as we had given customers more time to pay up because of the effects of the demonetisation.

We also make standard asset provisioning at 40-basis points instead of 35-basis points as required by RBI. Our loss assets due to thefts, spurious, gold, etc., were stable at 0.9%. The Company's consolidated networth stood at 3362 Crores. Book value per share was 39.9.

The Board has recommended an interim dividend of Re.0.5 for the quarter. Our capital adequacy was 25.9%. Consolidated borrowings were 10980 Crores. I will request our Promoter and Managing Director Mr. Nandakumar to share with us his views on our business.

**V.P. Nandakumar:**

Thank you Kapil. Thank you all for joining us today to discuss our Q4 results. Today, we have reported our highest ever-annual net profit at Rs.755.85 Crores. In fact, net profit for the year has

more than doubled as compared to Rs.353 Crores that we reported in FY2015-2016. We have also recorded a good growth in the consolidated AUM, which at Rs.13652 Crores is an increase of nearly 20% of the year before. Looking back at our performance over the last fiscal year we feel there is much to cheer about.

At the same time, there is no denying that the momentum of growth in the AUM seen in the first two quarters was not quite maintained to the third and fourth quarters. The macroeconomic environment of course suggests that the overall growth in the economy in FY2016-2017 was very sluggish. However, there are two economy related factors that we believe account substantially for the slowdown we faced in the second half of the year.

The first of these was demonetisation in November. The initial impact the disruption to our operations cost by shortage of cash is more an issue since cash supply is no more an issue since cash supply has been restored. However, the long-term impact relevant to us is that the demonetisation appears to have disrupted the working capital cycle of the business in the unorganised sector. Our observation is that this sector is still getting back on suite and may take another quarter or so before things really get back to normal.

The second factor is the drought like situation and then acute water scarcity phased by the Southern states particularly by Karnataka, Tamil Nadu, Kerala, AP, and Telangana also affected the business party. These are all key markets as far as we are concerned.

Going forward, Indian Meteorological Department has predicted a near normal rains this year. Also, we observe the gold loan disbursements are now back to normal and the impact of this should be visible in the coming quarters.

The demonetisation and drought in southern states have also affected the performance of our microfinance subsidiary Asirvad which after growing at a rapid pace over the last six to seven quarters has reported relatively mild growth during the last two quarters.

Coming to our financial performance, much of it has been already covered by Kapil. I would like to put my finger on two couple of points. Our average cost of borrowing continues to decline having fallen by 75-basis points during the year. It now stands at 9.7% while our incremental cost of borrowing is steady at 8.7% suggesting a room at the average cost to fall even further. We continue to follow conservative accounting practices to be ahead of regulation in the matter of income recognition.

In gold loans, we follow the 90-days norm as against RBI requirement of 120 days. In microfinance while we have reported a marginal loss for this quarter we have not availed to the RBI dispensation to

postpone NPA recognition. Moreover, Asirvad follows a tighter provisioning norm than what is required by the regulation.

Consequently the provisions made by Asirvad in excess of RBI requirement by 11.8 Crores. Lastly, a word about our diversification besides microfinance our home loans and commercial vehicle loans continue to deliver sustainable growth. Home loans and commercial vehicles put together now contribute more than Rs.600 Crores to our consolidated AUM registering a growth of about 20% over the previous quarter.

Both these businesses focus on the unorganised sector but were relatively unaffected by demonetisation. Thank you. The floor is open for your questions now.

**Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah:** Firstly in terms of the auctions this 789 Crores what has been the P&L implication of this, so how much is the book is there? Has there been under recoveries on this proportion?

**Kapil Krishan:** As you know after we shifted to the shorter tenure product the extent of under recovery is much less so there is a marginal short recovery but not much. As you know the net yield has gone up only. That also indicates that there is no large short recovery.

**Kunal Shah:** And this would be equivalent to how much tonnes of gold, 789 Crores.

**Kapil Krishan:** This is 3.8 tonnes.

**Kunal Shah:** 3.8 tonnes so from 65 to 61 out of that the 3.8 is on account?

**Kapil Krishan:** That is the main reason for the decline.

**Kunal Shah:** The other thing is in terms of the impact of maybe the RBI regulation with respect to the cash disbursements. How things have been post that regulation. Till what limit are we still disbursing in terms of cash now?

**V.P. Nandakumar:** We are in discussion with RBI. We follow the relevant provisions of the Income Tax Act and we are in discussion with RBI.

**Kunal Shah:** Sir up to 1 lakh is something wherein we are still disbursing in terms of cash?

- V.P. Nandakumar:** Now that 1 lakh is not there. This has been that 1 lakhs has been reduced to 20000 as per the Income Tax Act. That is the cash disbursement is 2 lakhs now as per the relevant provisions of the Income Tax Act. So we follow that strictly.
- Kunal Shah:** But has that impacted the overall disbursements during the quarter or this is outside?
- V.P. Nandakumar:** Mainly impacted due to the demonetisation and the severe drought etc., in the economy. These are the two negative factors affected the economy. These are major reason.
- Kunal Shah:** Sir, in terms of cheque disbursements on the incremental basis, what is the proportion now, outside of cash disbursements, may be cheque, online and everything?
- Kapil Krishan:** So that is about 60% of the disbursements.
- Kunal Shah:** Of the incremental disbursements.
- Kapil Krishan:** Yes.
- Kunal Shah:** It is outside of cash?
- Kapil Krishan:** Yes, outside of cash.
- Kunal Shah:** And 40% would be cash disbursements?
- Kapil Krishan:** Yes, cash and bank put together.
- Kunal Shah:** We do not have significant exposure to Maharashtra and UP which is reflected in terms...?
- Kapil Krishan:** We do not have Maharashtra and UP.
- Kunal Shah:** What would be the contribution of both of these states?
- Raja Vaidyanathan:** In Uttar Pradesh we have only about 4% of our portfolio and Maharashtra we just started. We have hardly 2 Crores of portfolio which is 0.1% or so.
- Kunal Shah:** So this large ticket is coming from the other regions?
- Raja Vaidyanathan:** The main hit is coming from Karnataka.
- Kunal Shah:** Any further provisioning left?

- Kapil Krishan:** That time will tell, right. We are focusing on the collections. We have fully provided as per our policy.
- Raja Vaidyanathan:** As said earlier, we have provided more than about 12 Crores more than what RBI dispensation. So we are watching very closely and monitoring the collections.
- Kunal Shah:** I will come back in the queue. Thanks.
- Moderator:** Thank you. We take the next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.
- Digant Haria:** Sir, first question is on the microfinance business. We are amongst the very few microfinance players who have shown a sequential growth. Sir how do you see the situation on the ground is it favorable for us to go out and grow or is it still that we are probably growing only on those states where the problems have been the least? So if we can just tell like what kind of situation do you expect in the next say two quarters or so?
- Raja Vaidyanathan:** We are currently present in about 17 States and Union Territories. We have identified couple of states as problematic states. As you all know that UP, Maharashtra, part of Karnataka so obviously our disbursements in those states will be lower. There is tremendous potential otherwise in other states particularly in the eastern region in Bihar, Odisha, and West Bengal. Last week entered northeast. We have now launched in Tripura. We are moving to Assam. So our focus has shifted more to east and definitely in south, we are predominant player, but we are not moving aggressively in UP, Haryana, and Karnataka. So we feel the growth is there in other states definitely.
- Digant Haria:** My second question is on the gold loan business that despite the sharp fall in the AUM we could still report the same kind of interest income so our yields have gone up almost 100-BPS, Sir did we have some kind of interest reversal which came because of these auctions and any kind of that one time nature in the interest income line?
- V.P. Nandakumar:** Net yield has gone up as you had computed and the average AUM came down. The average AUM decline is slightly less than the closing AUM because the auctions were more in the last month. So they just offset each other and the topline was flat actually.
- Digant Haria:** Got it. Thanks. That is it Kapil from my side.
- Moderator:** Thank you. We take the next question from the line of Yash Zaveri from Elder Capital. Please go ahead.

- Yash Zaveri:** Most of my questions have been answered. Just on the decline in the tonnage. In how much time do you expect to make up this 4 tonnes that you have lost?
- V.P. Nandakumar:** Now with the onset of monsoon and also the season also has come the growth has started to come. I hope the first and second quarter we will be able to fully recover.
- Yash Zaveri:** Just another small follow up on the gold loan portfolio what would the NPA be as on Q4, just for the gold loan portfolio?
- Kapil Krishan:** 2%.
- Yash Zaveri:** Thank you.
- Kapil Krishan:** While we were just discussing, I wanted to again highlight that we follow a policy of doing auctions on a regular basis, which is why you see our auction figure has gone up actually because it was bunched up for two quarters. So just wanted to highlight that again.
- Moderator:** Thank you. We take the next question from the line of Dhruvesh Sanghvi from ProsperoTree. Please go ahead.
- Dhruvesh Sanghvi:** I just wanted to know in terms of overall strategy how are we differentiating in comparison to, I mean, I am naming the competitor because that is the only one in terms of the differentiation, how are we differentiating with Muthoot on the gold loan business?
- Kapil Krishan:** Dhruvesh we would not like to talk too much about our competition. So I do not know if how much we can discuss about that because we would not like to name them as such on our call. We can talk about our strategy but we would not like to comment on their strategies.
- Dhruvesh Sanghvi:** Okay. My actual point was that we were hearing a couple of things in terms of making as much as digital, the disbursement process. So is it that only we are doing or the entire industry is moving towards that and the entire set of people who are using this product is also ready to use the digital disbursement mode or something like that.
- V.P. Nandakumar:** Our digital business that is the online business is increasing. Now it is nearing 12% and I hope that will improve. We are working a lot on that making it so customer friendly. So we have pockets. I think in the long-term the company will be benefited.
- Kapil Krishan:** Plus Dhruvesh in our microfinance business we are aiming towards 100% cashless disbursement and we are finding that all the customers are having bank accounts. So it is they have the bank accounts and when the industry moves to cashless there are solutions there actually.



- Dhruvesh Sanghvi:** In terms of I think you answered, but I did not understand it properly in terms of our current loan book on the gold side, you said that incremental 60% is going in terms of the cheques and the non-cash payments, but if we have to see the existing collections, does that also transfer in terms of cheques and the non-cash route? If you can highlight the proportion of cash versus non-cash in the collection side?
- Kapil Krishan:** See actually what happens is that there is a lot of same day rollover also where we reset the LTV.
- Dhruvesh Sanghvi:** But at some time they must be repaying right?
- Kapil Krishan:** So that is a combination of cheque and cash basically.
- Dhruvesh Sanghvi:** Can you give me some proportion?
- Kapil Krishan:** Gateway also. So basically we do not have those breakup just now, Dhruvesh.
- Dhruvesh Sanghvi:** No issues. Thanks a lot.
- Moderator:** Thank you. We take the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Sir, just on the gold loan portfolio growth, I mean if we see the full year number, the growth is closer to 10% but I think we have to adjust for the auctions also but going forward how do you see the growth outlook there, because we had sort of guided for a better growth but I think the demonetisation sort of changed the whole equation, so just on guidance on the gold loan portfolio per se? And two data keeping questions in terms of network for housing finance and CV business?
- V.P. Nandakumar:** As I used to talk in the past, I see the gold loan business in the positive light. I see the potential for growth to over 10%. Last year the major causality was the demonetisation. Hopefully this year would be better on all counts.
- Kapil Krishan:** So the commercial vehicle business is part of Manappuram Finance entity and the housing finance as a 100 Crores network.
- Ashish Sharma:** Sir just on the borrowing cost I think you have given the data in terms of incremental cost of borrowing is 8.8%. We expect the borrowing cost to sort of settle down at these levels or do we have headroom to sort of improve on from here?
- Kapil Krishan:** Basically there are some longer-term debentures where they cannot come down to the incremental cost, but gradually it will tend towards that figure.

- Ashish Sharma:** Okay. That would be all. Thank you.
- Moderator:** Thank you. The next question is from the line of Gopinath Reddy, individual investor. Please go ahead.
- Gopinath Reddy:** Given the risks that are recurring across the industry. I am not talking about our company alone, in the microfinance domain, is there any change in our strategy? Are we planning to grow more conservative, because our business when it comes to gold loan it is almost 100% secured because we have enough of securities with us. These political problems all these stuff keeps on coming somewhere or other in the country. How are we going to deal with this?
- Raja Vaidyanathan:** The microfinance business is not what it was four five years back when the Andhra crisis came. We have a very robust credit bureau mechanism now. We have lot of internal discipline in the industry. We have what in short is because of demonetisation there was a definite problem in the microfinance industry but it has limped back to normalcy. There will be in some part of India there will be some problems or other more because of the political issues, the local politics issues not even major politics issues, local politicians trying to create problem. So we have clear data, heat map available from these credit bureaus, which are the districts, which are really prone to such problems, and clearly we are avoiding those districts. Having said these are all in India in about 700 to 800 districts we have less than about 10 to 12 districts which are considered to be very bad districts where you have recurring problem. So we move with caution and at the same time I want to say that definitely demand in microfinance we are just about 100000 Crores as of March 31 and the demand is close to 4 lakh Crores done by CRISIL and MCRIL. There is lot of potential in this segment.
- Gopinath Reddy:** Still do not we see any risk of contagious assets like suppose as of now it gone into a few districts given if and when Tamil Nadu elections kind of a thing happen, the politicians here looks to be dangerous in some angle at that time will it not be fair to ride all of a sudden kind of a problem. Are we not foreseeing such kind of risk?
- Raja Vaidyanathan:** That is the reason we are reducing concentration risk. We were 100% in Tamil Nadu, now we are 40% and as we move along we have clear path where we do not want to have more than 5% in any state or 10% of the market share in that state. So we are working towards that. That is the reason we are moving toward the east also where in potentially is very good market for microfinance. Reducing concentration risk is only solution to this. People who were in Andhra earlier only in Andhra got hit totally even today in one state gets hit we can come back to normalcy and that is why we are reducing clearly the share of our portfolio in each state.
- Gopinath Reddy:** Given the current problem in Karnataka is it foreseeable how much that we can recover back and how is the situation in that area where troubles are there in Tamil Nadu or Karnataka now?

- Raja Vaidyanathan:** Karnataka the Bengaluru city is the major problem for all the MFIs including us. We have put several initiatives there. We have put our own collection team and we know that even in the provision made in the accounts most of it is pertaining to Karnataka. So we know that we have become realistic and in future we will definitely avoid potentially risky areas in Karnataka. In general, metro is a big risk now in microfinance and in our portfolio we have clearly semi-urban and rural. We have got 65% to 70% in rural and Karnataka, Bengaluru is the only area where we are clearly in the metro city in India. So we have to move away from metros for microfinance.
- Gopinath Reddy:** Coming to gold loan Sir, security charges, did we come back to the previous levels or is there any increase that is going to come going forward?
- V.P. Nandakumar:** It will remain at this level with more on the electronic thrust to new electronic monitoring we hope that the costs can be a little reduced a bit by the end of this year. It may be reduced by another 20% to 30%. So it will not go up.
- Gopinath Reddy:** Last question, what is the capital gearing as of now at present?
- Kapil Krishan:** We are 3.3 on a consolidated basis. Standalone is 3.
- Gopinath Reddy:** Thank you. That is it.
- Moderator:** Thank you. We take the next question from the line of Rohan Mandora from Equirus Securities. Please go ahead.
- Rohan Mandora:** Sir this is with regards to loans. I just wanted to check one thing in that for the 20000 cash disbursement that was announced by RBI how much of the percentage as a book is affected by this?
- Kapil Krishan:** As was discussed that right now we are still in discussions with RBI and there has been no impact so far.
- Rohan Mandora:** How much was percentage of the book is less than 20,000?
- Kapil Krishan:** About 15%.
- Rohan Mandora:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Tushar Sarma from Athena Investments. Please go ahead.

- Tushar Sarda:** Thank you for the opportunity. I wanted to understand the provisioning that you have done on microfinance, so your gross NPA is 4.66 and net is 1.36, so you provided over 3% in one quarter, is that correct?
- Kapil Krishan:** Yes, that is for the full year we provided so much.
- Tushar Sarda:** I am just saying Q3 to Q4 with Q3 net NPA was 0 anyway?
- Kapil Krishan:** Yes.
- Tushar Sarda:** What would that has been as per norms if you have done the provision as per norms?
- Kapil Krishan:** We have done Rs.11.8 Crores more than RBI norms.
- Tushar Sarda:** What is the reason for extra provision you think that this will actually go bad completely?
- Kapil Krishan:** No. We just followed a consistent policy that we were always following. We had a policy of doing 100% for 120-day plus and 50% for 90 to 120 days. RBI states that you have to do 100% for 180 plus and 50% of 90 to 180 days. That is the only reason.
- Tushar Sarda:** For the balance 30-day you said this 3.5%, so what is your assessment of that, it will be recovered or for that again become doubtful?
- Kapil Krishan:** The time will tell, we are focusing on collections, very difficult to make the statement right now.
- Tushar Sarda:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Jeevan Patwa from CandyFloss Advisors. Please go ahead.
- Jeevan Patwa:** If you can just tell me about you have 25% capital adequacy, so going ahead how do you plan to allocate the money to different sectors, so are you going to focus more on the home finance or the microfinance or the gold loan, because the capital adequacy which was very high?
- V.P. Nandakumar:** In the past also we have told what we expect with do not want to reduce the focus on gold loan, it will continue as usual, but the other portfolios, there is a potential to grow other portfolios like home finance, commercial vehicle and microfinance, By 2020, it will be around 25% and by 2025, we hope that new businesses will grow to the extent of some 50%. That does not mean the focus on gold loan will get reduced, no.

- Jeevan Patwa:** Right, but when you are saying 50% would be non-gold business, so in that whether you want to grow the house loan business or the microfinance business?
- V.P. Nandakumar:** Naturally, the thrust will be secured lending, so one of the secured lending would be housing.
- Jeevan Patwa:** Because this is the affordable housing seems...
- V.P. Nandakumar:** The thrust area would be housing then followed by commercial vehicle then unsecured land including microfinance.
- Jeevan Patwa:** So microfinance will be the last right?
- V.P. Nandakumar:** Right.
- Jeevan Patwa:** Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Varun Iyer from Individual Investor. Please go ahead.
- Varun Iyer:** Good evening and congratulations for a good set of numbers. My query is regarding the gearing ratio, are you intending or planning to increase the gearing levels from 3.5 given that you are well capitalized. Secondly are you looking for change the borrowing mix skewed more in favor of commercial papers vis-à-vis bank loans and thirdly, what is your projected housing loan AUM by 2020?
- Kapil Krishan:** I will address the borrowing part. Definitely, we are not looking to raise more equity, so in line with growth, our target is to increase the gearing and the profitability. In terms of mix, we do not see too much shift now. We hope that this current mix will continue.
- Varun Iyer:** So, no incremental favor in commercial paper vis-à-vis bank borrowing, you will continue the same way?
- Kapil Krishan:** It should be broadly in this may be marginally increase only.
- Varun Iyer:** Okay, your intention by 2020 how much do you think that could be achievable?
- V.P. Nandakumar:** We plan to give lot of thrust to the growth of home loan portfolio, particularly in the affordable housing because a large number of our gold loan customers may require this affordable housing and they are also upgrading, so with all these we expect this growth to around Rs.3000 Crores by 2020.
- Varun Iyer:** That is a good set of numbers. Thank you very much.

- Moderator:** Thank you. We will take the next question from the line of Manbarthan Beth from Laurel Capital Management. Please go ahead.
- Manbarthan Beth:** Good evening Sir. Congratulations on a very good set of numbers. A large part of my queries were addressed. I just wanted to understand when have we changed this strategy of focusing more towards secured lending in our non-gold business, because sort of purely numbers seem to indicate that are focused primarily had been microfinance. So has that been recent change after what has happened towards the last quarter?
- V.P. Nandakumar:** No, microfinance focus, we have not changed thereafter. The demonetisation issue is one time issue as we see it. So we have our own plans to defocus in a particular state and in a particular geography, we want to spread our focus to the entire country excluding the risky area as we pursue. It will continue, but other business, required business like commercial vehicles and housing these business just started, now the infrastructure people technology everything in place, because of that these two businesses are poised to achieve a bigger growth in the coming years. So it is not a question of defocusing to microfinance, absolutely no. We want to grow that, but at the same time we see a good potential for growing the secured businesses. For our microfinance customers also we are also thinking about the possibility of offering some of these good customers secured lending also.
- Kapil Krishan:** Further, we acquired seven years old business in the microfinance entity whereas the housing and commercial vehicle will set up from scratch. So going forward the scale of rate will be faster in these other new businesses. There is microfinance starting growing faster.
- Manbarthan Beth:** That is good to hear. But again just to sort of delve a little deeper into this going by what has transpired over the last two quarters in particularly the last quarter it is sort of indicative from the numbers that the quality of the secured business is much higher than the quality of unsecured lending that we do and while our risk management then our approach is excellent and that is the reason on more metrics we probably stands for ahead of our peers, but the nature of the unsecured lending is always such that it is just far riskier than secured lending and to that extent that is how valuations in equity markets are also given. So it has been the business that has done well, but obviously this phase in the market is also something that we can learn a lot from. So is this phase leading to some sort of strategic change at your end as well particularly towards the unsecured business?
- V.P. Nandakumar:** Definitely value your points. At our level even in microfinance business, we do everything to see that risk is effectively managed. So our portfolio also we have definite plan going forward that is why the other secured business are also growing in the Asirvad portfolio also we are thinking about securitizing maximum tolerable level as per the regulation secured business. So your points are well taken.

- Manbarthan Beth:** One last question Sir, at Asirvad level, how can we securitize things, what is the security that is available from that particular clientele?
- V.P. Nandakumar:** The microfinance group also is a small group who can offer collateral security of their title deeds put at the property. So for them if they are in the SME business cottage industries etc., we may be able to help them. At least there are people and from our group also a very small secured borrowers, micro entrepreneurs who can offer securities will be able to lend them Asirvad, so our all portfolio of Asirvad also their portion will be secured, but the microfinance business also as I mentioned we plan to our own risk mitigation strategy by reducing concentration in a particular geographies, states etc., So we are continuously studying using with the data analytics to see that our presence is reduced very much in the riskier areas and where we see as possible to.
- Manbarthan Beth:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Deepak Sudhar from Safari Capital. Please go ahead.
- Deepak Sudhar:** Thank you very much Sir for the opportunity. My first question pertains to your gold loan business. Do you see any kind of hiccups or risk in terms of bank basically poaching in and kind of taking over your customers because especially your 60% of the disbursement is now through non-cash, which will be ultimately going to a bank account?
- V.P. Nandakumar:** Still there are convenience factors for us. We can also disburse through e-cash etc., now we have been licensed by RBI for the PPI and also co-branded cards, so we do not feel like our customers can be poached by banks, because they have their own limitations in lending to it. The technology is what we use, more customers friendly as we pursue.
- Deepak Sudhar:** I understood your point now. So basically on your AUM growth in the past we have spoken about 20% total AUM for the next two - three years, so are we still maintaining it given the gold loan we are kind of guiding at 10%?
- V.P. Nandakumar:** In the overall consolidated AUM, I was talking about the consolidated AUM growth maintained that 20% level I am very much hopeful of that.
- Deepak Sudhar:** Right, understood and even targeting about 25% AUM share by FY2018 for other business right?
- V.P. Nandakumar:** Right, by 2020. Currently we are 19%. Non-gold is around 19%.
- Deepak Sudhar:** That is it from my side. Thank you very much and all the best.

- Moderator:** Thank you. We will take the next question from the line of Omkar Kulkarni, Individual Investor. Please go ahead.
- Omkar Kulkarni:** Earlier there were rumours about the stake sale by promoters and sale of company, are there any truth in this rumour, is there any truth?
- V.P. Nandakumar:** These rumors, do we have already told that these rumors are false?
- Omkar Kulkarni:** There is nothing on the table right now?
- V.P. Nandakumar:** These rumors are falsely spread.
- Omkar Kulkarni:** Okay and you said that you are targeting around 20% CAGR on AUM for next two - three years?
- V.P. Nandakumar:** Right.
- Omkar Kulkarni:** What can be the consequent PAT increase?
- V.P. Nandakumar:** PAT increase also will have expect a reasonable increase.
- Omkar Kulkarni:** About 20%?
- V.P. Nandakumar:** Our objective is to see the ROE maintain the 20% level.
- Omkar Kulkarni:** Okay, currently we are about that level Sir, right?
- V.P. Nandakumar:** We will have slightly about that around 24%, we are hopeful of maintaining around 20% in the next three, four years time.
- Omkar Kulkarni:** Okay and you are saying that you are giving lot of focus on this housing finance subsidiary of yours?
- V.P. Nandakumar:** Right.
- Omkar Kulkarni:** And you plan to take it for Rs.3000 Crores by 2020 right?
- V.P. Nandakumar:** Right.
- Omkar Kulkarni:** So, any plan to list this subsidiary in coming years?
- V.P. Nandakumar:** Sorry.



- Omkar Kulkarni:** Any plan to list separately with subsidiary?
- V.P. Nandakumar:** All depends on the market conditions.
- Omkar Kulkarni:** Currently you are not evaluating this plan?
- V.P. Nandakumar:** All depends on the market conditions. If something gives value to the shareholders, we will consider at that point of time.
- Omkar Kulkarni:** But currently you are not considering that right, you might consider in the future?
- V.P. Nandakumar:** It is very small, it is around Rs.300 Crores, it is too premature for us to think about that now.
- Omkar Kulkarni:** Okay, thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Saurabh Dhole from Trivantage Capital. Please go ahead.
- Saurabh Dhole:** Thanks for taking my question. Just a couple of queries. Firstly, when I compared the gold loans with the MFI business and this question is not particularly to your business, but in general the industry apart from one product being a secured product, what exactly is the difference that you are seeing in terms of the impact demonetisation had towards cash flows that you were supposed to receive for each of these products basically?
- Kapil Krishan:** Could you please come again?
- Saurabh Dhole:** I just wanted to understand what was the difference in the impact that demonetisation had on gold loan borrowers and on MFI borrowers?
- V.P. Nandakumar:** The gold loan borrowers because there is a stress in the economy that is affected the recovery of gold loan leading to higher auction. In microfinance, the repayments are in small amounts in groups etc., these have not really impacted other than the political intervention, but wherever there is a political intervention and they have spread rumors about the farmer loans and other loans waiving off, etc., etc., and that has created problem, otherwise these problems were not there in the elections, some of the states are not there we do not think microfinance recovery would have been impacted. This is what we feel.
- Saurabh Dhole:** Basically you are saying largely your MFI business has been impacted mainly because of political interference?

- V.P. Nandakumar:** That is right.
- Saurabh Dhole:** Okay and coming to on the second question I just wanted to briefly understand what kind of synergies or what kind of shared operating support do these two companies, the Gold Finance business and the MFI business, what kind of resources do they share?
- V.P. Nandakumar:** There is no sharing of resources. Holding company as well as subsidiary were totally independent. There is no sharing of management bandwidth. Each of these companies have their own management style.
- Saurabh Dhole:** Okay, that is it from my side. Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Amit Agarwal from IDFC Bank. Please go ahead.
- Amit Agarwal:** This is Amit from IDFC Bank. I just wanted to understand the equity infusion plan in Asirvad given that it was no equity in FY2017 and since your carrying is just about 6% what is the comfort level of the management in the company for that?
- Kapil Krishan:** We had raised subordinate bonds last year, therefore there was no equity and as you know we are very comfortable on our capital adequacy and there is no constraint on the amount of equity that we can put in, so as the company would need we can put in equity.
- Amit Agarwal:** Any upper limit in terms of gearing where you see that now this is the time to put in equity because it is just about six, so that is the reason I ask?
- Kapil Krishan:** Yes, in this year, there will be further capital.
- Amit Agarwal:** That was helpful. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Anand B from Sameeksha Capital. Please go ahead.
- Anand B:** Good evening Sir. Congratulations for wonderful set of numbers. I joined the call a bit late, so excuse me if I am repeating the question. I wanted to understand what has been the key driver for our fabulous performance in FY2017 on a standalone basis and how do we foresee on a standalone basis for the whole business FY2018 and FY2019?
- Kapil Krishan:** In FY2017, there was growth in the AUM and the net yield also went up, cost of funds came down, opex also came down, so that was the reason for the doubling of the profits.

- Anand B:** In terms of growth in AUM, how do you foresee because cost on fund was may be kind of one time it might not repeat a lot in FY2018 and FY2019, so AUM growth are any guidance for the gold loan business?
- Kapil Krishan:** Firstly cost of funds came down on the 75-basis points last year and two years was 226 basis and our incremental is still almost 100-basis lower than what we are doing right now. So there is still for the scope on cost of funds as well. AUM growth as we have said that we are expecting around 22%, 25% growth over the next three to five years.
- Anand B:** Would this involve setting up additional branches or would it be in the existing branches?
- Kapil Krishan:** Setting up additional branches is not a problem and as the business needs it we will do that.
- Anand B:** Okay, it is flexible.
- Kapil Krishan:** Yes, there is no restriction on that.
- Anand B:** Okay and if you were to just understand, because there is collateral involved, so we might be having physical upper limit on the AUM per branch, so let us say particular averages like five tonnes it is upper capacity then we can lend money only up till that level, so what is the current storage capacity which limits your AUM size with the existing infrastructure and what could be the upper AUM that we can attain without any additional renting of space?
- V.P. Nandakumar:** There is no upper limit as such with the increase in collateral storage in a particular branch what we need to do is to increase the infrastructure facilities there including manpower which includes security also. We will already do that and there is no cap again.
- Anand B:** Last question on auctions, this is just from understanding for auctions you have to we have been mandated to do it in the corresponding Taluka wherever we have branch, so is there any mandate on the sequence for which we have to do, have we required to do it every quarter or every six months, what is the sequence that you will mandate?
- V.P. Nandakumar:** We do as mandated by the regulation, so we are strictly complying that. So we regularly do the auction of the NPA, so these have been done on a monthly basis.
- Kapil Krishan:** Having said that RBI does not have any specific guideline on when it has to be auctioned after due date that is the company's practice.
- Anand B:** Sure, but there is a geographical guideline that we have to auction it within the same Taluka?

- Kapil Krishan:** That we are following.
- Anand B:** We have the freedom to convenience intent of time?
- Kapil Krishan:** Yes.
- Anand B:** Wonderful Sir. I will come back in queue for more questions.
- Moderator:** Thank you. We will take the next question from the line of Karan Mehta, Individual Investor. Please go ahead.
- Karan Mehta:** Very good afternoon to you Sir and congratulations on yet again posting good set of numbers. The only thing that I had in mind is that consolidated profit is actually less than the standalone profit. So that means that the companies such as Asirvad and all that, they are eating up into the profit of the standalone business. So now as far as I can see the profit and loss statement, now I do not know which component is causing that to happen, but now what is the evidence that we as investors can have that now in the coming quarters they will start to pickup again like is there any special efforts being made on making those companies work to show up a positive bottomline?
- V.P. Nandakumar:** This year as such Asirvad also performed well. Our ROE business is around 13%, the profit has increased by around 35% compared to the previous year. But for demonetisation the performance had impact, the overall performance of that company was good. Now the demonetisation impact is weaning and also the company is making every effort to recover whatever is written off as a good fortune that is written off and disbursal cycles also have started at a normal level. So we hope that this year as a whole that would be better.
- Kapil Krishan:** If you see on a full year basis, the subsidiaries have been showing positive contribution, so Asirvad made the Rs.34 Crores profits for the full year.
- Karan Mehta:** One more question that I had is that the increase in provisions has not been that much like in the last quarter provisions were Rs.35 Crores and this quarter there have been Rs.40 Crores for the consolidated. Now you said that there were some problems in Bengaluru majorly and some other areas, all those will be written off in the last quarter, which means from the January to March quarter. Now I see that the increase in provision has not been that much, so should I conclude that there are going to be more provisions in the coming quarter because of the provisions have not increased that much where I was and we were expecting to be a huge write off?
- Kapil Krishan:** In the gold loan business, the NPAs came down, so there was a reduction in the provisions and it went up because of the Microfinance Asirvard, so on an overall basis is the number you see on the consolidated but within that there has been reduction and increases.

**Karan Mehta:** Thank you so much for answering my questions and I really hope that we can get with the coming as you said with the coming off onset of the monsoon we can get the subsidiaries going again.

**Kapil Krishan:** Right.

**Karan Mehta:** Thank you Sir.

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

**Kapil Krishan:** Thank you everyone for joining our call and look forward to seeing you in future as well.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Daiwa Capital Markets, we can close today's conference. Thank you for joining and you may now disconnect your lines.