



“Manappuram Finance Limited Q1 Financial Year 2016 Earnings Conference Call”

August 14, 2015





Manappuram Finance Limited
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Moderator: Ladies and gentlemen good day and welcome to the Manappuram Finance limited Q1 FY 2016 conference call, hosted by IDFC Securities Limited. As a reminder all participants' 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanketh Godha. Thank you. Over to you Sir!

Sanketh Godha: Thank you. Good evening everybody and welcome to Manappuram Finance Earnings call to discuss Q1 FY 2016 results. To discuss the results, we have on the call Mr. V.P. Nandakumar who is Managing Director and CEO and Mr. Kapil Krishan, Group Chief Financial Officer. May I request the management to take us through the financial highlight subsequent to which we can open the floor for question and answers, over to you Sir!

Kapil Krishnan: Thank you Sanket. Ladies and gentlemen welcome to Manappuram's Q1 FY2016 conference call. For the quarter ended June 2015, our consolidated AUM crossed the Rs.10000 Crores mark and stood as Rs.10104.67 Crores and it increased by Rs.511 Crores during the quarter, which is 5.3%.

Our total consolidated income from operation was Rs.539.04 Crores compared to Rs.456.57 Crores in Q1 FY 2015 an 18% increase year-on-year. The consolidated profit after tax was Rs.59.3 Crores, 34.3% increase year-on-year on the Rs.44.15 Crores that we reported in Q1 FY 2015.

Coming to standalone quarterly numbers our closing gold loan book was Rs.9666 Crores. It was 4.3% higher than the March 2015 level. This indicates that our efforts to reach out to customers are continuing to bear results.

Average gold loan AUM during the quarter was Rs.9196 Crores. Auctions during the quarter were at Rs.554 Crores and new book was Rs.912 Crores.

Our total number of customers went up by 2.7 lakhs and now stands at 18.1 lakhs. Weighted average LTV was 69%, gold loan disbursements continued to be strong during the quarter and were at Rs.8188 Crores compared with Rs.5580 Crores in Q1 FY 2015.

Our gold holdings also increased by 5.5% in line with the AUM growth and now stood at 56.09 tonnes.

As investors are aware Manappuram has been a pioneer in shifting to shorter tenure products a year back in June 2014 itself. For our one year loans we have been offering 65%

LTV and the maximum allowed 75% LTV is being offered only for shorter tenure three-month loans. This has helped us to largely delink from the gold prices.

The new products that we launched in June 2014 now constitute 95% of our total gold loan AUM. Therefore, the impact of the recent fall on gold prices is restricted to only 5% of our book, which constitutes the older 12-month loan at 75% LTV.

The new businesses we set up and acquired in FY 2015 are also gaining traction. Asirvad microfinance had a closing AUM of Rs.418 Crores, a 29.9% increase compared to the level as of March 31. They had 151 branches and earned an ROA of 4.36% during the quarter.

The mortgage finance business, which comprises of home loan and the loan against property had a book of 19.7 Crores and Rs.35 Crores respectively. Commercial vehicle business had a book of Rs.34.7 Crores as at the quarter end.

The share of new businesses in the overall AUM is steadily increasing and now stands at 5.03%. Each of these new businesses, are run by dedicated professionals with relevant industry experience right from the top management to the branch levels. We expect the new businesses to contribute around 25% of total AUM in the next three years.

Our financing cost went up by 5.5% during the quarter to Rs.236 Crores. Our average cost of borrowings came down by 35 basis points compared to the previous quarter and 99 basis points compared to a year ago and now stood at 11.6%.

Our average borrowing cost has been steadily coming down every quarter due to our improved financial position; our long-term rating has also been upgraded to AA- by CARE.

Employee cost increased to Rs.101.9 Crores during the quarter. The increase was mainly due to higher staff incentives that were paid out during the end of the quarter, which will give the full benefit in the coming quarters. Administrative cost stood at Rs.78.1 Crores and depreciation costs were flat at Rs.12.3 Crores.

Overall number of branches was stable at 3293. Provisions and write-off during the quarter was Rs.12.36 Crores. We have implemented the new standard provisioning norms at 30 basis points as required by the RBI in this quarter itself, which resulted in a higher provisioning of Rs.4.8 Crores during the quarter.

Our gross NPA was stable at 1.2% of AUM though we had shifted to the 150-day recognition norm compared to 180 days earlier. As you know most of our gross NPA relate to accounts that are regularly servicing interest though the loan may not have been closed.

Lost assets due to thefts, spurious gold, etc., amounts to only 7-basis points of the AUM. This shows a robustness of our internal risk management system.

The company's consolidated networth stood at Rs.2646.67 Crores as on June 30, 2015. The book value per share was Rs.31.46. The board has declared an interim dividend of Re.0.45 per share, capital adequacy was at 24.97%, and total borrowings were Rs.8905 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 in this concall to discuss our Q1 results. From the overall macro perspective the fact that the RBI chose not to cut interest rates in its June and August reviews of monetary policy was not unexpected; however, it is better than expected monsoon keeping a lead on food inflation. We expect a more positive outcome in the next bimonthly meeting.

Another issue of relevant to us is that the rural economy is showing strain, one reason is the government consciously moderating the increase in minimum support prices to control food inflation.

Coming to the company, our performance in the last quarter was noteworthy because we crossed the Rs.10000 Crores milestone in the consolidated AUM. We managed to grow despite the challenging macroeconomic environment with softening gold prices.

The growth was the outcome of the efforts to reach out to the customers through aggressive on ground marketing and sales promotion activities. In the last concall in May, I had mention how we were increasingly shifting to shorter tenure gold loans in order to derisk the portfolio against a scenario of lukewarm gold prices. That has turned out to be a smart move for us.

It has allowed us to maintain asset quality even as gold prices corrected further in the recent period. Incidentally Manappuram was the first player to initiate this transition to predominantly short tenure gold loans. Besides gold loans our new businesses have also done well during the quarter. For microfinance subsidiary Asirvad has reported encouraging results in the last quarter growing to an AUM of Rs.418 Crores, 30% increase achieved in one quarter as compared to Rs.320 Crores levels of March 31.

I have mentioned this in the last concall the fact is as a subsidiary of Manappuram, Asirvad has benefited tremendously by its most takeover access to lower cost of funds. Their credit rating has gone up by three notches to A- from BBB- with an improved access to capital

they have extended their presence to five new territories, Madhya Pradesh, Chhattisgarh, Punjab, Haryana and Chandigarh.

We also planned to enter UP, Bihar and Jharkhand in the coming few months. The pace of growth in our commercial vehicle finance and mortgage based loans, affordable housing loans and loans against properties has also picked up. Today new businesses together contribute about Rs.90 Crores to the AUM.

Three months ago, it was just half of that. Putting it all together, we expect our new businesses to contribute 25% to our total AUM in the next 3 years.

Finally, our credit rating was upgraded to AA- by CARE. We also succeeded introducing our borrowing cost by further 35-basis points during the quarter. In fact over the last one year our borrowing cost has fallen by 99-basis points indicating our improved credit points. Thank you. The floor is now opened for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Digant Hariya from Antique Stock Broking. Please go ahead.

Digant Hariya: Good to see the new presentation format, just something on that, if we can show the standalone balance sheets also we used to show that till last quarter. I think this quarter's presentation only shows the consolidated balance sheet, so that was just one request from my side.

Kapil Krishan: Sure we will do that.

Digant Hariya: Coming on to the questions so last four quarters, we have seen a very good pickup in the customer addition and in the gold under possession, so you know if we see the AUMs have grown from Rs.85 billion to close to Rs.96 billion right now, so that you know is almost at 11% to 12% increase, but at the same time, the net interest income has remained absolutely flat at Rs.286 Crores and this is despite of borrowing costs coming down in the last four quarters and you have always maintained that you know the lending rates have not gone down at the branch level, so I am not able to reconcile the entire thing that last four quarters AUMs have been constantly growing, but the NIIs have not been growing at all?

Kapil Krishan: Digant, I do not know the Q1 net interest margins, so total income less finance cost, I am seeing on a consolidated basis is Rs.304.9 Crores, it went up 5% sequentially in line with the AUM growth and year-on-year the net interest margin is up 24% again in line with the closing AUM. So may be we are looking at some different figure which we can reconcile offline, but total income less finance cost is what I am looking at.

- Digant Hariya:** So in the gold loan business specifically the yields on your gold portfolio how have they behaved in the last two to three quarters like they have been steady or they have been falling?
- Kapil Krishan:** Our gross yields have not fallen much, they have only come off around 25 to 30 basis points and they continued to be quite stable actually. They may off a bit, but we are not expecting a drastic fall.
- Digant Hariya:** In terms of your provisions we have around Rs.11.5 Crores of provisioning this quarter, so if you can just bifurcate that into how much has been because of the fall in the gold prices how much of it has been because of the NPA, you know may be the auction losses, any if you can give such as bifurcation of the provisions?
- Kapil Krishan:** So the provision has gone up mainly because we had to provide 4.8 Crores extra for the standard provisioning. So the exact wording of the RBI circular says that it has to be maintained at 30-basis point as at the year-end, but on a conservative basis we have done it Q1 itself and that is the main reason why the NPA provision has gone up.
- Digant Hariya:** So it is Rs.4.8 Crores of standard asset provisioning?
- Kapil Krishan:** Increase because of that.
- Digant Hariya:** With this gold price falling again we were something like Rs.2650 per gram on the physical gold and that has fallen by almost a 100 bucks in the last one to one and a half months, so is it expected that may be in this quarter also we will see some provisions because you do some kind of dynamic provisioning right?
- Kapil Krishan:** So we do the provisioning right from the loan going into the sixth month itself and we had only 5% of our total book constitutes the older loan at which is a 12-month loan at 75% LTV and this is drastic contrast to our competitors who have still stuck to 12-month loan and 75% LTV, so for us the only vulnerable book is this old book and that we have some impact in Q2 slightly higher than what we had expected earlier, but at the same time the overall strength of the balance sheet is much better and therefore the impact of the gold price is much less on us.
- Digant Hariya:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for the opportunity Sir. Now my first question is that I just read in your annual report that we have launched some gold scheme at about 12%, 13%, 14%, so is that so?

Kapil Krishan: There are some schemes which are at low LTV, which are designed to compete with the banks and those because the LTV is lower, the risk is lower, so the interest rate can also be lower, but that is not the major product that we market, it is a very small percentage of our business.

Deepak Poddar: So overall impact on spread would be very less?

Kapil Krishan: Yes.

Deepak Poddar: My second question would be in case gold prices fall sharply over a quarter or so and LTV for a person, which initially was 75% and then gradually it moves up to 90% because the gold loan has fallen, so how do you derisk that kind of scenario, do you ask more collateral or how does that happen?

Kapil Krishan: See basically we give 75% LTV only for the three-month loan now, so in three months even if the customer does not service any interest, the principal plus interest will hardly be around 81%, 82% of the gold value, so even when we auction suppose he pays no interest and we have to auction the loan, we will recover our full interest, so that is how we have derisked ourselves. For one year loan we give 65% LTV, so even there the buffer is substantial.

Deepak Poddar: So that buffer, but in case the LTV for a customer moves up to 90% just for let us say fundamentally, so in that case do we ask for more collateral?

V.P. Nandakumar: We do not ask for more collateral, see in gold loan one thing remains a fact in around 80% to 90% cases the customers come and redeem because of the emotional value attached to these ornaments. This is the normal approach. Only when there is, for the customer to buy an ornament he needs to shell out around 110% of the market value because there are some additions like making charges extra, so always the customers factor that also into that, most of the customers, so even with the sharp decline what may come, because of the price decline may be around 10% that also because of some possession, etc., some portion may be and the hit may be over the balance that also as LTV is low, we are comfortably placed.

Deepak Poddar: The final question was what kind of outlook or any kind of outlook you want to share for microfinance and mortgage business, what kind of CAGR this business has?

- V.P. Nandakumar:** Yes microfinance during the first quarter as I mentioned we have grown by 30%, so I am hopeful that this may continue during the year. The microfinance there is an ample opportunity across the country. We have entered into new territories, so that will help us and that now with credit rating upgraded to the A-, which is one of the highest in the microfinance industry the company may be able to get more funding from the balance at cheaper rate, at a lower rate compared to...
- Deepak Poddar:** Sir basically a 100% kind of over next two, three years is possible, 100% percent growth per annum?
- V.P. Nandakumar:** I feel so it is possible. Regarding home finance, currently as on date we are around Rs.30 Crores. Our expectation is to grow the book to Rs.200 Crores by the end of this year.
- Deepak Poddar:** How much?
- V.P. Nandakumar:** Rs.200 Crores is our expectation.
- Deepak Poddar:** This ROA of 4.5% loan is sustainable?
- V.P. Nandakumar:** ROA is expected to be around 2.5%.
- Kapil Krishan:** Microfinance expectation is 4.36%.
- Deepak Poddar:** I am talking about microfinance only.
- V.P. Nandakumar:** It is over 4, ROA is over 4%.
- Deepak Poddar:** Thank you very much.
- Kapil Krishan:** Just to add some more colour to the growth, Asirvad was basically concentrated in one state and when we bought it, we bought it at a valuation of 1.85 times price to book. As you know when a microfinance company derisks its geographic presence, the valuation is very high, it can be at least four times price to book and we have already taken this company to five new states and we have expanded the presence in some other states like Karnataka and Kerala where they were present, so we have already added Madhya Pradesh, Chhattisgarh, Punjab, Haryana, Chandigarh and we will be adding three new states in the next few months, so the balance sheet will be significantly derisked of the company.
- Deepak Poddar:** Very helpful. Thank you.

- Moderator:** Thank you. The next question is from the line of Gopinath an Individual Investor. Please go ahead.
- Gopinath:** Sir, this is related to this quarter that is currently running, if the gold prices keeps going in the same like the current price level, if they are not fluctuating much going forward from now onwards, what may be the write-off that we may need to go for, because why I am asking this question is, 5% of one year range loans are going to be exposed to the effect of this gold price steep fall recently, that is the defect will come and show in gross NPAs or net NPAs. I am talking about write-offs, do we need to really take any write-off or it does not come into that level at all?
- Kapil Krishan:** No, you are right. We never loose principal, so write-off of principal is never there. We have interest reversal because if the principal plus interest is more than what you will realize at the time of auction, so that interest income obviously will not be accounted for. So that is the only extend of impact we have, so we do not loose principal.
- Gopinath:** I did not understand it rightly, is it that when we go for auction, we cannot collect the interest part is it?
- Kapil Krishan:** Some part of the interest only does not get collected because the gold price has just fallen 7% actually and even if we take a longer period it has fallen around 8% to 9% and even at 75% LTV it is not going to lose result in loss of principal.
- Gopinath:** It is very much heard. My only thing is interest part how much do we, principal part yes I understand that it is no way, the chances are pretty, pretty low, but interest part how much we may get to write-off because of the effect of gold price fall down recently in the coming quarter?
- Kapil Krishan:** Yes, so there will be some impact, but the final impact will depend on the gold price at which we auction it because gold prices again been going up also last few days with a rupee depreciation, so we cannot give a figure actually right now.
- Gopinath:** Rough picture, I am not asking for any guidance kind of a thing. I am just asking rough picture for an estimation so that it will be useful going forward also, if the gold price continue like this after a 10% fall or 9% fall suddenly will it affect us and if it affects how much will be the write-off affect on the interest part?
- V.P. Nandakumar:** We cannot say that correctly now because we have accelerated our collection process, collection missionary, we are trying to reduce that to the maximum possible extent.

- Gopinath:** Sir the second question is related to the call transcript that will help a lot in, mainly, even if we have.
- Kapil Krishan:** Previous quarter transcripts have been already uploaded on our website and even this time will be uploaded. This was a request made earlier.
- Gopinath:** Yes, I made the request Sir.
- Kapil Krishan:** Okay, that has been implemented. If you go to our website you will find the conference call scripts.
- Gopinath:** No Sir it is not there, I am very much on the website, I am not able to see it at all, I am not able to see it Sir, I am very much on website.
- Kapil Krishan:** Take up the latest, it should be there, we just see it, we had uploaded it actually.
- Gopinath:** Okay, investor contact, quarterly results annual reports it is not there Sir.
- Kapil Krishan:** We will just check it up.
- Gopinath:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Koshi from Florintree Advisors. Please go ahead.
- Rahul Koshi:** Just looking at your presentation obviously I see a line that says LTV revision to 75% has led to the revel of the industry and I have been tracking the company for quite sometime, we aware of the fact that there was a demand for level playing field between banks and NBFC etc., but currently as they understand this LTV rule for the banks includes the interest component as well and I do not think the gold loan finance companies are really including interest when calculating the LTV while reporting to RBI, can you just clarify this issue as to whether this rule applies to you or not, now that you have got the level playing field?
- Kapil Krishan:** Basically see we would not like to go into detailed comments on the banks, but for NBFCs we can definitely say that it is at the time of disbursement and not during the entire tenure of the loan.
- Rahul Koshi:** But have you got to clarification to that extent or are you just assuming that because there has been no notification effectively?

- Kapil Krishan:** There is no doubt on that, RBI has been doing regular inspections.
- V.P. Nandakumar:** Then we have been reporting that to the RBI.
- Kapil Krishan:** Yes, there is no doubt on NBFC.
- Rahul Koshi:** That is all. Thanks.
- Kapil Krishan:** Yes just to clarify we actually can see the conference call scripts on our website.
- Rahul Koshi:** Thanks.
- Moderator:** Thank you. The next question is from the line of Nischint Chawate from Kotak Securities. Please go ahead.
- Nischint Chawate:** I just wanted to understand what would be the difference between the rate of interest for one-year 65% LTV loan and a three-month 75% LTV loan?
- Kapil Krishan:** The rate of interest does not vary with the tenure. It varies more, so that the rate of interest will be similar.
- Nischint Chawate:** No, I am sure it will vary between 65% and 75% LTV right?
- Kapil Krishan:** It is the same for us.
- V.P. Nandakumar:** Depending upon the tenure the variation is the LTV, not in the rate of interest.
- Nischint Chawate:** Now between the various products that you would be offering, what would be the range of difference in the rate of interest, I am sure you would have some element of range, so may be if you could just give a little bit of colour on that and that would just help us?
- V.P. Nandakumar:** There is no difference with regard to interest. What you meant is, is it the mix in the AUM?
- Nischint Chawate:** Yes that is right, in the AUM what would be the highest rate of interest and the lowest rate of interest if you could kind of broadly give a range?
- Kapil Krishan:** 12% to 24%.
- V.P. Nandakumar:** Product wise.
- Nischint Chawate:** And what percentage of loans would be kind of north of like 22%, very roughly?

- Kapil Krishan:** Most of our loans are in the 18% to 24% range and below 18% would be around 20%.
- Nischint Chawate:** 20% of the loan portfolio in terms of value?
- Kapil Krishan:** Yes.
- Nischint Chawate:** The other question really pertains to expenditure, any specific trend out here or any specific reason out here why the expenditure went up this quarter?
- Kapil Krishan:** Basically it went up because there was some onetime increase in the staff incentives, which were given out towards the end of the quarter actually, so the benefits of the growth will come in the subsequent quarters.
- Nischint Chawate:** Is this like annual salary hike, which will be reflected over the next three quarters as well or this is the performance incentive, which has kind of got reflected in this quarter?
- V.P. Nandakumar:** It is a performance-based incentive. It is a onetime payment. The payments are already made at the time of sourcing itself. The benefits will accrue over a period of time.
- Nischint Chawate:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Gokul Maheshwari from Multi Act. Please go ahead.
- Gokul Maheshwari:** My question is more on the competitive environment, how is the competitive environment with respect to banks and other NBFCs doing the business specially in respect of what is happening to the gold prices in the last few months?
- V.P. Nandakumar:** So the competitive environment is weaning, because with a gold price falling what I find from the market is aggression in the market especially from the banks is going down. This is an advantage to us. Amongst the NBFCs, yes, many of the NBFCs which entered in the recent past in this gold loan segment has withdrawn because we are unable to manage the risk whereas the established companies are in the business, very active in the business and their number is comparatively less. National players, only two, three national players are there, so even the competition is there, but I do not feel like there is a cut throat competition.
- Gokul Maheshwari:** Specifically on yields, this is not pertaining to the next couple of quarters, but more from a longer-term perspective that there are options for the consumer to go for personal loans and even a loan against property, which is a fast growing segment right now and if you just relate that with the context that the gold prices have come down, so whether the

attractiveness of the gold loan product has come down, so do you think yields would structurally be coming down in the business in order to show growth, the same kind of growth, which you have been showing in the recent quarters?

V.P. Nandakumar: Yes, first was regarding alternate products, the gold import to the country is ever increasing around 1000 tonnes a year, so 1000 tonnes is a quite a large quantity, these are a sizable portion is going into jewellery, which is again going into the rural markets. So the market is expanding. Another advantage of gold loan over other product is the loan is instantly available. We used to say it is a poor peoples credit card. So because of the nature, which is instantly available, totally hassle free because a customer can come and avail loan then there is a close the loan at his choice. The easiness to the business can be dealt if you have an advantage to gold loan. So even though the products are sometimes these products are the operators used to be very aggressive, but later they retract. For example you are mentioning about loans against property. With properties market in the country is really bearish, the loans against property is also the operators are not very active nowadays. So there are cycles, but I feel like, a product, which has been in existence for the last several centuries, will have its own market.

Gokul Maheshwari: You do not expect there to be yields to be coming down, you still should be northward of 20% ?

V.P. Nandakumar: All depends on the economy. Whether the central borrowing rate goes down the chances of interest rate, our lending rate also are coming down, but we feel like is next the coming years, in the medium term our net interest margin will not shrink below 10%.

Gokul Maheshwari: Secondly you know a lot of gold buying in the last decade or so also included investments in gold other than just in jewellery consumption because of this particular trend are you seeing any reduction or any change in consumer behavior in terms of the emotional value of the jewellery.

V.P. Nandakumar: The emotional value has a special affinity to culturally the people has oriented towards jewellery and they hold as independent value. I do not think in the near term there will be a big cultural shift, and regarding the gold mines investing in the gold etc, but you see India is not able to use gold, but one of the largest importers of gold that is also going to the family may be the largest in the world. As is the case I do not think this is could be worry for us.

Gokul Maheshwari: Just lastly on you know sequentially every quarter in the last three or four you have grown at around 400-odd Crores plus or minus 5% or so is that something as a trend, which can be extrapolated for the rest of the year?

- Kapil Krishan:** Actually as we have said that you know annualized we are looking at 10% to 15% growth and we should stick to that range.
- Gokul Maheshwari:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Viral Jain from Singular Capital. Please go ahead.
- Viral Jain:** I just have one question about is there is certain portion of the loan book currently, which were interest is not being recognized in the P&L because you mentioned that there is certain part of loan book where there could be interest reversals, my question is that currently what magnitude of the loan book if there is any where the interest is not being recognized in the P&L?
- Kapil Krishan:** See, this is an ongoing process and there is definitely some interest reversal that happens and as we mentioned, so basically we do not give the exact figure over there because that is not published figure.
- Viral Jain:** So let me ask different question then, what is the actual yield on the loan book where interest is being recognized because you get a colored figure if you look at the gross loan book versus interest income, which is there on the P&L; however, what is the actual yield if you have take out portion of the loan book where interest is not being recognized right now?
- Kapil Krishan:** That is a very good question. The gross yield also keeps varying depending on the amount of loans in each team, but it would range currently around 24% to 25%.
- Viral Jain:** On a blended basis?
- Kapil Krishan:** Yes.
- Viral Jain:** Just one more thing, a large chunk of loan book is also of the sort of where you encourage the borrowers to come and pay portion of their interest, so and borrowers do come as in more than half the borrowers had come and paid their interest whatever has been accrued to date does that part of loan book is also there where interest is not recognized or you would keep on recognizing interest so long as $P + I$ is less than the value of the underlying collateral. I just want to get broad sense of the policy income recognition policy on that but I understand it is dynamic, but when is that call taken, that interest would not be recognized?

Kapil Krishan: Basically, we will look at the risk book and if interest is paid it will not form part of that risk book.

Viral Jain: What percentage of P + I as a percentage of underlying collateral is the trigger mark beyond on which income is not recognized?

Kapil Krishan: Can you just come again?

Viral Jain: There would be certain portion of the book where P + I is very close to the underlying value of gold of the collateral or has exceeded it, so what is the trigger as in what is threshold value in terms of percentage of the underlying value of the collateral beyond which interest is not recognized on that loan?

Kapil Krishan: So it is taken on at 95% of the gold price.

Viral Jain: Thank you.

Moderator: Thank you. The next question is from the line of Gopinath an individual investor. Please go ahead.

Gopinath: Sir I can see that transcript first thing. Thank you. I am sorry I was not able to find previously. The second thing is in the annual report when I was reading it, it is mentioned as technology wise we have gone far ahead recently. In terms of security, automatic lockers all that stuff, it looked very encouraging and exciting to see that. How much of its effect will be there in terms of we will be reducing the security expenditure and all that stuff, how much of its effect will be on the cost of operations and in turn on the ROE and how long will it take to reflect in the financial statements?

V.P. Nandakumar: The effect of technology in the security control will improve the efficiency and translate into some cost reduction to the extent from 5 Crores per annum. That is going to be the impact. The technology is more on emphasis on the customer service side. So we have initiated online payment system where the customer can pay, service the loan, they can round clock 365 days this is one thing. We are again going for new products like e-lockers so then online gold loan, etc. So online gold loan, we may initiate during the current month itself, this is our plan. So we have online system online branch connectivity for the last 10 years that is why we claim that we have the technology is used better than the competition.

Kapil Krishan: Just to add, a lot of the technology initiatives may take time to actually penetrate throughout our customer segment, but as of pioneering effort, we are continuing innovate and launch lot of this, so we have also launched online payment facility and online gold loan and automated alarm system for the security, so there is continues effort on this.

- Gopinath:** Especially this e-locker there must be reducing a lot of manual intervention?
- V.P. Nandakumar:** It is the management of these securities is a lot of comfort and convenience will there.
- Gopinath:** There what I am asking is how much of the advantage of that particular thing, would be substantial?
- V.P. Nandakumar:** It will be substantial over a period of time not immediately.
- Gopinath:** Is that launched Sir, the e-security, e-locker systems somewhere?
- V.P. Nandakumar:** We may launch somewhere by the end of this year, by the end of this fiscal.
- Gopinath:** My last question is what measures are we taking further to improve ROE on gold business, it is like it has been somewhere around 10, 11, 12, will it go up by any if there is any?
- V.P. Nandakumar:** It is because of the higher opex, it will steadily come down because in the recent past, we have not added any branches. So the branch affects, the growth these of very slow as compared to the growth and growth is happening and this year we may grow, we have projected a growth of 1000 Crores or so, this ROE will improve.
- Kapil Krishan:** You know the average AUM per branch. We have shown in our presentation that has been steadily going up actually.
- Gopinath:** The last question then this South Indian branches is the improvement majorly coming from north rest of South India or I mean other than South India or it is coming up year as well?
- V.P. Nandakumar:** One or two states in South India are doing fine and new territories are also doing fine like Odisha, Maharashtra, Gujarat, etc., they are also doing fine.
- Gopinath:** Thank you. That is also my side.
- Moderator:** Thank you. The next question is the question from the line of Gaurav an individual investor. Please go ahead.
- Gaurav:** My question with respect to our initiatives like we are a market leader gold financing and now we are going and doing another business that is commercial vehicle financing and loan against property, so how we are forcing our future into that how profitable we will be in terms of protecting our margins and in terms of continuing our AUM and we are not defaulting on that loans, so if you can just elaborate on that part?

V.P. Nandakumar: We have projected an AUM mix of 75:25, 75 from gold loan and 25 from other loan in the next two years. The ROA may be somewhere around the same level of 3.25% to 3.5% over this period.

Gaurav: No, basically, I just want to know that like in loan against property or in home financing, we are targeting that segment, which is at the bottom of pyramid or one pyramid or one level up and within that segment most of the NBFCs, which are very well managed like REPCO Home Finance and Dhruv Finance, they are also targeting and seems REPCO Finance is within south region as well and like in commercial vehicle finance, we have Sriram Transport Finance which is targeting at that so how we are seeing the challenges that are coming from those and how we will be giving them a tough competition and protecting our margins, so in that line if you can just elaborate?

V.P. Nandakumar: We are in the affordable home finance, but our 25% portfolio will be above that. This is our plan, 72% to 75% will be in that affordable housing area, which may be below 25 lakhs. I am not talking about regulatory cap and balance will be above that. The advantage we have a large customer base. We can publicize about this product of through our branches where this home loan branches are there. This is one advantage we have. Regarding commercial vehicle is the market, which has slightly slowed down during the last two to three years is emerging now, primarily because of the cost reduction of fuel. This is a propelling growth in that sector and again as I mentioned because of reach and advantage wherever this CV branches are operating, other branches also can be a referral center. This advantage we have.

Gaurav: Interesting, and what will be the margins in terms of NIM where we will be targeting in two these segments in commercial vehicle finance and home finance?

V.P. Nandakumar: What is important is not NIM, what is the ROA? That is important? ROA will be maintained at the level of gold loans, 50-basis points left that is all.

Gaurav: Thanks a lot. That is all from my side.

Moderator: Thank you. The next question is the question from the line of Digant Hariya from Antique Stock Broking. Please go ahead.

Digant Hariya: You know this quarter the employee cost were at 97 Crores on your standalone business, so that is almost 17 Crores more than the usual run rate you have last five to six quarters, so going ahead if we were assume that you know your incentive or efforts to start growth will continue will this number hover around the current or should it come down back to at 80 to 85 Crores kind run rate, which we had in the past?

- Kapil Krishan:** Digant, it will definitely down in the quarter.
- Digant Hariya:** If you can give me number of employees I think that is number is missing in the presentation?
- Kapil Krishan:** Total is 16420.
- Digant Hariya:** That is from my side. Good luck.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for closing commands.
- Kapil Krishan:** We would like to thank all the participants for joining just on the eve of the long weekend and look forward to see you again.
- Moderator:** Ladies and gentlemen on behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.