



“Manappuram Finance Limited Q2 FY’15 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Manappuram Finance Limited Q2 FY'15 Earning Conference Call, hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode. 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. Santanu Chakrabarti from ICICI Securities. Thank you and over to you Sir!

Santanu Chakrabarti: Good morning everyone. I take great pleasure in having with us here today Mr. V. P. Nandakumar, MD and CEO, Mr. I. Unnikrishnan, ED and Deputy CEO and Mr. Kapil Krishnan, CFO of Manappuram Finance. They are here to discuss with you the company's performance in Q2 FY'15 and also the business outlook going forward. We will have a Q&A session after their brief introduction where all participants will get an opportunity to address their queries directly at them. Without much further ado let me hand the floor over to our honoured guests from Manappuram Finance. Over to you gentlemen!

Kapil Krishnan: Thank you Santanu. This is Kapil Krishnan here. Ladies and gentlemen a very warm welcome to our conference call to discuss Manappuram Financial performance for the quarter ended September 30, 2014. For the quarter our total income from operations was Rs.504.84 Crores compared to Rs.456.3 crores in Q1 FY'15, an increase of 10.2% QoQ. The closing AUM was Rs.8530 Crores, an increase of 323 Crores compared to a net increase of 44 crores in Q1. The average AUM during the quarter was Rs.8257 Crores, an increase of 146 Crores QoQ. Auctions during the quarter were 299 Crores and we added new books of 624 Crores, which resulted in the net growth of 323 Crores in the closing books. Our ROA for the quarter was very robust at 3.1% and our spreads were also very healthy at 14%.

Disbursement continued to be strong during the quarter and Rs.5835 Crores compared to 5580 Crores in Q1. During the quarter we added 2.4 lakhs new customers compared to 2.28 new customers added in Q1 and 1.9 lakh new customers added in Q4 FY'14 so sequentially the number of new customers added has been going up steadily. The total number of live customers was 16.1 lakh as of the quarter end which is a 4.6% sequential increase. Our gold holding also increased 4.2% to 47.82 tonnes.

Our sustained marketing effort at the ground level has resulted in the above robust volume growth figures indicating a sustained recovery in our business. Finance cost remained unchanged at around 214 Crores. Our average cost of borrowing during the quarter was 12.39%, a decline of 21-basis QoQ and 69-basis point's year-on-year.

The company's employee cost decreased 8.4% QoQ to Rs.72.98 Crores. This was mainly due to a reduction in the total number of employees by 1145 and the total number of employees was now 14902. Other administrative expenses also decreased by 1.5% to 75.85 Crores. The above savings were largely due to our sustained cost rationalization efforts, which have been bearing fruits. Depreciation cost was also lower by 0.75 Crores mainly because in Q1 we had a retrospective effect of changes in depreciation due to the changes in the Company's Act.

The overall number of branches was stable at 3293 and we are in an advanced stage of reallocating around 100 branches to higher potential areas. This will also further improve our business efficiencies in the coming quarters. Provisions and write offs during the quarter were Rs.11.81 Crores. Our gross NPAs increased slightly to 2% of AUM from 1.7% in Q2. This marginal increase was mainly as we allowed some of our good customers some more time to regularize their accounts before we close them. As you know majority of our gross NPAs relate to accounts that have regularly service interest though the loans have not been closed.

Subsequent to the quarter end due to collections that have happened in the month of October our gross NPAs currently stand at 1.5% so as we stand today actually our gross NPAs are lower than they were in Q1 at 1.5%.

Loss assets due to thefts, spurious gold, etc., amounted to only 0.1% of AUM which has been our trend in all the quarters. This shows the robustness of our internal risk management system.

Profit after tax increased 73.8% QoQ to Rs.76.44 Crores. The resultant EPS for the quarter was Rs.0.91. The Company's networth stood at Rs.2567.9 Crores as of September end. The book value per share was Rs.30.53, capital adequacy was at 27.61%, total borrowing stood at Rs.7439 Crores, 80% of these are from around 35 banks, during the quarter we also successfully raised Rs.300 Crores through our public issue of NCDs which was closed before time.

With this summary, on the financials, I would now request our Managing Director and Promoter Mr. V.P. Nandakumar to share his perspectives on the business and the macro environment.

V.P. Nandakumar:

Thank you Kapil. Thank you all for joining to the conference call of Manappuram Finance to discuss Q2 results. I will begin with the quick overview of macroeconomic development relevant to us. Since our last concall in July the macroenvironment has shown welcome improvement on the inflationary front.

Consumer inflation has fallen to annual 6.46% in September down from 7.73% in August as the lowest feeding since the data was introduced in January 2012. Wholesale prices index was also at a five year low of 2.38% for the month back to the decline of input prices if these spend sustained we can look forward to a softening of interest rates at least from the next calendar year.

The improvement in our overall environment for business has been a positive for Manappuram Finance too. In the last concall we have said that the gold loan business was seeing a turnaround after a downturn for two years. Today we can say with confidence that the turnaround is shaping to be a full fledged recovery.

During the last quarter our loan book has shown a good and consistent growth. Both disbursement and new customer acquisitions have picked up pace. At the ground level, we now emphasise on timely collection of interests together with the introduction of gold loan products offer a shorter tenures, we have succeeded in containing auctions.

Moving on you are aware that we have taken a policy decision to add new products offering to cater to our existing customers. Accordingly, we are entering into housing finance, vehicle finance and micro finance. The aim is to utilize surplus capital to build or acquire new lending products relevant to our existing retail customer base. We propose to leverage our 15 lakh strong customer base. Our 3300 branch network in rural and urban India and the Manappuram branch indeed moves. Over the next two years we hope to build at least 25% of our total AUM from this new business lines. Also we expect to capitalize on our operational capability to process large volumes a small ticket lending concessions with semi-urban and rural customers.

Our housing finance business will be rolled out through a new 100% loans to subsidiary. We are really acquired in NHB and now we have received NHB approval to commence business in the name of Manappuram Home Finance. Our focus will be on loans in sub Rs.20 lakh category targeting the first time property buyers. We will also deal in loan against property from MSME and the SME where business formats. Vehicle finance will focus on small LCVs and utility vehicles, more relevant to the existing and new customers in branch locations.

The micro finance venture will focus on joint liability group and lending to rural and semi urban women. In this context we have signed a nonbinding term sheet to acquire majority stake in Asirvad Microfinance Private Limited, headquartered in Chennai. Asirvad Microfinance is an RBI registered NBFC MFI, which operates in Tamil Nadu, Kerala, Odisha and Gujarat. The crossover of the transaction however is contingent upon the satisfactory completion of due diligence and the effect of statutory and regulatory approvals

from the RBI. In line with the above we have sanctioned our top management and the fresh appointments in the grade of Executive Vice President, EVPs, Mr. Alok Ghosal has been appointed as CEO Housing Finance while Mr. Senthilkumar has joined in Commercial Vehicle Finance. R. Raghavendra Anand has been inducted as National Head Microfinance in the grade of senior vice president. You will recall that the exercise of strengthening top management had actually commenced in 2012 with appointments of T.K. Somasajeevan as EVP (HR) and Kapil Krishnan as Chief Financial Officer, CFO and Mohan Vizhakat as Chief Technology Officer, CTO.

Mr. Unnikrishnan has resigned from the position of Executive Director and Deputy CEO in order to pursue his entrepreneurial ambition. The Board has accepted his resignation and will be relieved from office on November 30, 2014. Mr. Unnikrishnan has been an Executive Director of the company for nearly eight years and made significant contributions to its growth. He will continue on the company's Board of Director as a Non-Executive Director. I will take this opportunity to wish me the very best in his future endeavors. Mr. Kapil Krishnan, our CFO will now hold full charge of Investor Relations and treasury management. Thank you very much. The floor is now open for questions.

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Digant Hariya from Antique Stock Broking. Please go ahead.

Digant Hariya:

Congratulations on a great set of numbers. Sir just had two or three questions. Sir firstly if you would throw some light on how your branch activations resulted in higher disbursements and higher customer acquisitions this quarter? Second is if you can just tell us about the product dynamics as what is your most popular product, is it a 14%, 18% 22% which is the most popular product in the category and how is the competition from other NBFC banks affecting you? Sir these three are my questions on the business front.

V.P. Nandakumar:

The first question branch activation and improved sales, yes now with a lot of motivation incentives our sales push has intensified. Second the branch rationalization where the branches are not that productive we have given some incentives to the customers with slightly lower rate of interests. So this is attracting business to some of these branches. Where we see the potential is not there we have identified for places where good potential is there across the country and we are shifting these unproductive branches which we believe that has later scope for business to these place. This is how we have activated our branch of business. Regarding competition, yes competition is always but there is level playing field with the new regulations regarding LTV etc., there is the regulatory cap on LTV. Now we have a clear level playing field. The major competition was from banks. Now our LTV cap is priced at 75% then they also are brought within this cap. So we have level playing field

which also has resulted in improved business. About the products, yes we have launched the short-term product three months product with LTV of around 75% and one year product the LTV is around 50%. The customers' preference is always after a higher LTV, but whether this is for one year or whether it is for three months, what is insisted upon is a regular payment of interest that culture is being brought in. Earlier this culture was not there. Now even at the time of offering a loan where the customers are always requested to remit their interest as monthly basis and we tell them and we try to educate the overall customers with the advantage of remitting interest which will help their recovery of these ornaments in time because it will suit more to their cash flow, this is how.

Kapil Krishnan: Digant, you know as we have now going out of the branch and reaching out to customers so instead of just waiting for customers to come the whole effort is to reach out to the customers who have closed their loans earlier so all those have also added to the whole traction.

Digant Hariya: Sir would it be fair to say now that you know at least we should start seeing growth coming back so you know like this quarter was a first time after say last four five quarters that we have actually shown positive growth in terms of gold under possession, number of customers, disbursements in loan book and everything, so this trend we expect it to sustain, you know obviously the underlying assumption is gold price does not fall sharply with that assumption can we say that now your customer acquisition will keep on improving with quarters to come?

V.P. Nandakumar: Yes, as I already told you, the customer acquisition process or incentives are there at the branch level as well as at the customer level so with these increased thrust on sale, I hope the customer acquisition will be continue to be maintained or improved in the times to come.

Kapil Krishnan: Digant, you will appreciate that this performance has been in the light of the steady decline in gold price as well. So we are slowly progressing to decoupling our performance with the gold price. So gold price has been steadily falling, but our volume numbers has been steadily increasing.

Digant Hariya: Last question is whether the yield this quarter have gone up quite sharply so is it because of the lower auctions compared to last quarter or is it because of actually the increased business at higher yields and how should we read that and probably the trend going ahead on yields?

Kapil Krishnan: Yes it is mainly because our increase in the net yields rather than the gross yields, which as you rightly pointed out because now more portion of our book is interest bearing. As you

know if a loan goes out of money we do not accrue the interest, so that was resulting in a lower net yield and because that proportion has come down significantly now. That is what has resulted in the growth in the next yield.

Digant Hariya: Thank you so much for this.

Moderator: Thank you. We have next question from the line of Deepak Agarwal from Tata Mutual Fund. Please go ahead.

Deepak Agarwal: Just wanted to know what would be your growth guidance for FY 2015-16?

V.P. Nandakumar: We see good potential for business. We see good potential. We are not sure about the numbers and all, but we see a good potential for growth. We do not have a policy of putting out a formal guidance as you know it, and we are talking extensively about the revival in the sentiment in our business and we expect that trend to continue. As we know the economic sentiment is also now looking up and that should further add demand for gold loans as well, so overall we are bullish, but as I mentioned we do not have a formal guidance number.

Deepak Agarwal: Another thing is what percentage of customers have we migrated to EMI based payments compared to bullet payments?

Kapil Krishnan: We do not have an EMI based product, which is one of the ways we differentiate from the banks. We give more flexibility to our customers that they can repay whenever their cash flow permits. So we have launched shorter tenure products, but we have not launched EMI products.

V.P. Nandakumar: We have also brought some technology here, online payment of installments and interest for the customer, so the technology is in use now.

Kapil Krishnan: We always give rebate if the customer chooses to pay interest regularly, so the field is being incentivized to collect regular interest, but we do not have EMI based kind of pressure on the customer.

V.P. Nandakumar: Actually, we do not collect EMI. What we tell our customers where the employees as well as the customers are incentivized is monthly remittance of interest. The customers are incentivized, so also the employees.

Deepak Agarwal: Sir, but essentially, earlier a customer will be walking into a branch taking alone and may be about six months or a year's tenure. In a way he will not be required to walk into our

branch. Now, one would be either he walks in or you have your employees going and collecting it on the ground from him at wherever he is based, right?

V.P. Nandakumar: Earlier also even now, the practice is the customers coming to our branch and remitting interest. Now with the facility of online payment, the customer can remit interest using that facility without coming to our office.

Deepak Agarwal: Another thing is like that as we see you are mentioning in the opening remarks that the GNPA increase is the relating to some extension being given or benefit being given to our regular customers some more time in terms of brech)?

V.P. Nandakumar: Majority of these customers are remitting interests. When the interest is serviced around 55% or 75%, we give them some more time because as you know we are aware the underlying asset is gold and there is a LTV comfort also because the LTV is slower compared to the previous 2012 periods.

Deepak Agarwal: But do we see this some more visible trend or this could be one of thing?

V.P. Nandakumar: This is a part of customer retention, customer service when the interests are serviced, but these loans are even given some of life.

Deepak Agarwal: What I was trying to come from this is there a change in the customer behavior, because this actually is the first time wherein shorter duration of products or pushing for more shorter, the nature of products is coming?

V.P. Nandakumar: As far as Manappuram is concerned, it is not a new for us because up to 2005 we were offering in the same products. Later, what we have seen is the regular increase in the gold prices where it was not required to auction because there is a sufficient coverage there that is why it got extended to one year prior to that we are offering this product.

Deepak Agarwal: But, you do not see any visible change in the customer behavior in terms of being?

V.P. Nandakumar: The average life of this loan is around five to six months. So, even if it is for three months, we give them some grace period of another 90 days to come in redeem or remit interest. So, vast majority of the customers either remit interest or redeem the loan within this period. So, there is no much change as far as the customer behavior is concerned.

Deepak Agarwal: So, then essentially if I have to ask in terms of the normalized GNPA numbers. Now with this business models, it would be closer to these current levels or this is one of thing and it should settle down at lower levels?

- V.P. Nandakumar:** It may be settled around 1.5%.
- Deepak Agarwal:** Another thing on this acquisition of MFI you mentioned, so what exactly is the deal size Sir?
- V.P. Nandakumar:** We are targeting one company called Asirvad Micro Finance where we have signed nonbinding term sheet. The book of the company is around Rs.200 Crores, not a 100% purchase of the company, we want to retain the management with us, and so it will be a majority stake.
- Deepak Agarwal:** Any number in terms of what is the kind of value you are describing or paying to buy out the stake?
- V.P. Nandakumar:** It is just not finalized, but the valuation is around two times of the book, so we may settle somewhere in between.
- Deepak Agarwal:** Typically even if we look at three to four times leverage Rs.50 Crores capital base and somewhere between Rs.50 and Rs.100 Crores could be the deal size?
- V.P. Nandakumar:** We have intention to invest around 100 Crores in this through the acquisition of secondary sales as well as primary sales.
- Deepak Agarwal:** Another thing on this housing finance you mentioned we will be looking at sub Rs.20 lakhs, so that would be typically the self employed last may be in rural and semi-urban population?
- V.P. Nandakumar:** Absolutely right.
- Deepak Agarwal:** Somewhere like?
- V.P. Nandakumar:** Affordable housing.
- Deepak Agarwal:** Affordable housing is many of our competitors like typical Repco or Sriram?
- V.P. Nandakumar:** Repco or new entrants like Repco.
- Kapil Krishnan:** That is where our existing customer base is. The gold loan customers we want to leverage our existing strengths. So that makes the based economic sense also for us.
- Deepak Agarwal:** What we are trying to understand is that between Rs.10 lakhs to Rs.20 lakhs or it would be Rs.5 lakhs to Rs.10 lakhs which?

- Kapil Krishnan:** Rs.5 lakhs to Rs.20 lakhs.
- Deepak Agarwal:** Because, if you see Mahindra Rural Housing Finance is still more rural, so in that kind of customer profile, it would be more of this?
- V.P. Nandakumar:** We may target Rs.5 lakhs to Rs.20 lakhs customers, because we have a wide presence both in rural as well as semi urban areas across India. The potential places will be identified. We are in the process of identifying that.
- Kapil Krishnan:** May be not very deep rural, but more outskirts of cities and the semi-urban places.
- Deepak Agarwal:** This Company required, what is the existing loan book of this company now?
- V.P. Nandakumar:** It is a Shell Company. We have appointed the CEO who is a very experienced person as well in the home financial and we have recruited almost the entire team and we plan to commence this operation in another one month.
- Deepak Agarwal:** As of now that company other than the license has no business operation?
- V.P. Nandakumar:** There is no business operation. We are going to start and we got the NHP approval and the name is also changed it as Manappuram Home Finance.
- Deepak Agarwal:** Thank you so much Sir.
- Moderator:** Thank you. We have next question from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.
- Pankaj Agarwal:** What is the thought behind getting into commercial vehicle financing business and microfinance business? Is there any thought gain choosing these two businesses or other businesses?
- V.P. Nandakumar:** It is a good question. Our customer base is the bottom of the pyramid. In CV business, we are targeting small commercial vehicles and light commercial vehicles, which are mostly own driven, company's commercial vehicle. So, top of the bottom of the pyramid, in that segment this requirement is very much there. So, we have light customer base of around Rs.15 lakhs, but the actual customer base may be double of that because our loans have a very short in nature. So they are of repetitive nature. So if you take some 10% off that it maybe around 3000. We are targeting that segment. About microfinance also we are targeting the other end that is the bottom of the pyramid, many of them may be micro entrepreneurs they may have some cottage in the self-employed etc.

So they may need working capital. We are going through a joint liability model, so we target this bottom of the pyramid. We see lot of synergy in this new line of business.

Pankaj Agarwal: In terms of synergies how much of your existing fixed assets could be used for this two or three new businesses or there would be a complete new setup like starting a new business.

V.P. Nandakumar: For this 100% subsidiary is that home finance.

Pankaj Agarwal: That is from a legal perspective but from business perspective can you use your existing fixed assets for gold loan business for?

V.P. Nandakumar: Gold loan business?

Pankaj Agarwal: What I am trying to say is there because you have lot of fixed assets in terms of branches, people in technology, risk management can the same set up could be used for this two new businesses or you will have to start up fresh like starting a new business, new company?

V.P. Nandakumar: This infrastructure the surplus space available in the branches may be used with our regulatory permission. People and technology will be different.

Kapil Krishnan: For the commercial vehicle business, it can be done within our existing NBFC branches and for the microfinance and the housing finance we will have separate legal entities but our existing staff strength will be the lead generators and that will be the synergy basically.

Pankaj Agarwal: So to say you would have some head start over somebody who will be starting this business operation without any?

Kapil Krishnan: Absolutely, we have also got already a trusted name for finance across rural and semi-rural and urban areas. Today anyone you speak to here is out of our brand and even though borrower wants to choose from whom he wants to borrow. So that is the straightway plus point we have. We do not need to spend to build a brand. We have got presence on the ground across the country. So all these will be start of advantages for us plus we have a large network and capital base. Many

start ups today struggle to raise equity and even debt. Today, we can provide equity capital. We have got relationship with almost all the banks in the country. So these are the strengths that we bring to these new businesses and we are recruiting specialized teams to grow the businesses. So all around we feel it makes a lot of synergistic sense first.

Pankaj Agarwal: Second question is that three new businesses in last two, three months. Do not you think it is a too much diversification to soon when your core business I would say still trying to get back on it is speed?

V.P. Nandakumar: The core business we have an intact team this new business, one business microfinance which we are targeting we want to retain the entire team. There they have a private equity investor, who wants to accept small capital. We are buying that and are a part of that and the whole team will run the business along with the senior person recruited by us. Then about home finance it is a Shell company and we have recruited a very competent team for that. All experience in home finance most of experienced in home finance business. So that team is already there and the business will take shape in another six months and the growth may be slow only because the market etc., we have to capture. So to build a 100 Crores portfolio it may take sometime. Regarding vehicle finance yes we have been in vehicle finance pre 2005 but when we see the gold loan growth is good etc., so we slowed down that. Now we want to revise that because we see a lot of demand coming from our customers for this small vehicles etc., commercial vehicle etc. So that business also will be run by a professional team with competent people. We do not need to transfer people from our core business to that side. These businesses will be run by a team who has a responsibility towards profit.

Pankaj Agarwal: Would it be pan India launch of all these businesses or you will start with your own state and then go?

V.P. Nandakumar: Initially these businesses will be in South India and West India.

Pankaj Agarwal: Finally on your number of employees, I see close to I think you have reduced your employee count from 16000 to 15000 but if I see number of branches are almost identical, so any reason behind this decrease in headcount?

V.P. Nandakumar: Earlier because of some historical reasons we maintained higher staff strength of branches. We have the plan to open several branches and we have targeted an annual increase of some 500, 600 branches. Later with the price decline etc., and regulatory restrictions etc., we stopped opening these branches. So then what has happened we have to live with surplus staff for some time, now as usual some attrition will be there so because of the attrition happened during the last two years the number has come down and with this number we have the required number. The other was just surplus as I mentioned.

Kapil Krishnan: That regional officers and head office staff has also been made more streamline, which has also contributed to the savings.

Pankaj Agarwal: Out of this total strength of 15000 how much would be branch based employees and how much would be admin?

V.P. Nandakumar: Around 14000 plus will be at the branch level and the balances at the office level.

Pankaj Agarwal: Thank you.

Moderator: Thank you. We have next question from the line of Gokul Maheshwari from Allard Partners. Please go ahead.

Gokul Maheshwari: This question on the yields. You mentioned that the net yields have improved so on a steady state basis do you expect the yields to stabilize at these levels?

Kapil Krishnan: Yes we expect them to be around this level only.

Gokul Maheshwari: So if you could just comment what were the NIMs for the first half and how do you see NIM panning for FY'15?

Kapil Krishnan: The NIM for the first half were around 13% compared to around 12% last year first half and what was the second for?

Gokul Maheshwari: How do you see it for the full year?

Kapil Krishnan: I mean our cost of borrowing will continue to decline and as we mentioned we expect the overall gross yields the yields to remain at similar level. So NIM should remain stable as far as we can expect right now.

Gokul Maheshwari: Would not you pass on the benefit to the end consumer because you would be maintaining a specific spread so you are reducing your cost of fund and hence yield would also come off overtime?

V.P. Nandakumar: We have actually reduced our contracted yield, which is round 22% now, which was around 24% earlier. So that reduction has been already given as mentioned credit to cost has come down. That is one of the reasons for the improved yield.

Kapil Krishnan: The contracted yield is without the compounding effect, which Mr. Nandakumar mentioned. So when you compound it, it comes to 24%, 25% only.

Gokul Maheshwari: On the cost you have done a remarkable job in terms of cost management. From here on do you expect these to be at these levels or are you expect more cost saving to come through?

V.P. Nandakumar: I think now we have reached a reasonable level. From here the cost reduction may not be that much.

Gokul Maheshwari: Just last two questions. One is on the accumulated interest if you could just give this number for the quarter?

Kapil Krishnan: 567 is the accrued interest figure in the balance sheet.

Moderator: Thank you. We have next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: My question again pertains to asset yield. Since you mentioned that your yields are around 22% odd and based on compounding they kind of move on to 24. Just trying to understand was there any change in these yields over the last six to nine months?

Kapil Krishnan: No, actually the net yield was subdued earlier because part of our book was not; I mean we were not able to accrue the interest on it right because it was we do not accrue interest if it is out of money.

Nischint Chawathe: But is that the only reason. So here on you would expect yield.

Kapil Krishnan: All yields have remained slightly stable only actually.

Nischint Chawathe: So here on you will expect yields to remain in the range of 22%, 24% is what one can roughly say?

Kapil Krishnan: Yes that is our expectation.

Nischint Chawathe: In terms of the loan what is the maximum loan per gram that you are offering today?

Kapil Krishnan: 1850 is the LTV.

Nischint Chawathe: Finally what proportion of your loans would be more than let us say Rs.100000?

Kapil Krishnan: **Nischint** Chawathe, you can go on to the other question we will just answer that.

Nischint Chawathe: I just wanted to color in terms of the book how much this would be above 100000. How much above 300000 and how much between 50000 and 100000 so just let us know in the course of the call, because those were my questions?

Kapil Krishnan: Sure.

Nischint Chawathe: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Soni from Baljit Securities. Please go ahead.

Rahul Soni: Thanks for taking my question. Sir I wanted to know what is your sense of branch expansion because since last five quarters or so the number of branches has remained stagnant and also the number of employees has been cut down slightly. So how will which is reduce infrastructure yield support the growth?

V.P. Nandakumar: In the existing branches itself we see potential for growth. Many of these branches were opened during the last two year and there was some lull in the business during the last two years now when the growth has come back we see a potential for growth in these branches itself.

Rahul Soni: Do you have plans to add branches in near future as you are diversifying into three new businesses?

V.P. Nandakumar: Yes during the current year we have the plan to add 100 more branches in potential places in West and Central India.

Rahul Soni: Sir I want to understand when exactly the new businesses will be started?

V.P. Nandakumar: The microfinance business is already there with the capital infusion yes, we expect the growth to happen. In home finance business it will start its operation from December 1. Vehicle finance yes now the team is there now slowly we will start but we will be cautious as far as financial CV is concerned.

Rahul Soni: So you will need any further capital raising for to support the new businesses?

V.P. Nandakumar: It is not required because our Tier I capital is around 27% now as against regulatory requirement of 12%. So we have capital is rather underutilized. We can use this capital that is one of the reasons for diversification.

Kapil Krishnan: I will just answer Nischint's question. In terms of number of customers 12% is over 100000 and 70% is below 50000, 7% is between over 300000. Over 300000 is about 0.6%.

Moderator: Thank you Sir. We will move onto the next question that is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Again this question on more than 100,000, Sir with these cheque disbursements how we had actually seen things at the ground level. So this 12% which is there of more than 100000 how much was it over two years and do we expect this to run down further?

Kapil Krishnan: The changes in the regulation have now already stabilized and we have been following them for many months now and we do direct line transfer to the customers and we have now the facility of instant fund transfer also. So it is working very well and the numbers that have been reported are after all these changes actually. So there have been no issues in like transaction.

Kunal Shah: Actually we have been able to retain those customers or we would have actually got?

Kapil Krishnan: Yes whatever the numbers is after the new regulations and whereas been no adverse impact of that.

Kunal Shah: Secondly in terms of as you have been highlighting the proportion on which we have not been accruing the interest that have actually come of this, so if you can just give the trend if you would say on how much of the loans are we not accruing interest as of now which are there plus whatever is there in terms of which would get auction going forward. So how is that moved over last three, four quarters?

Kapil Krishnan: If a book goes out of money we auction it and we are reporting the auction number so that you have seen the declining trend. So that is what we disclose, Kunal.

Kunal Shah: In terms of interest accrued or so may be the other way to look at it is in terms of interest accrued?

Kapil Krishnan: Interest accrual figure also we give.

Kunal Shah: Yes so 567 is in Q2. How much was it in Q1?

Kapil Krishnan: It has increased by around 40 Crores.

Kunal Shah: It has increased by 40 Crores.

V.P. Nandakumar: Yes.

Kunal Shah: So it was 520 Crores. The points which I was mentioning say last time in Q1 the overall book was 8500 to 8600 Crores. On which accrued interest was 520 Crores. Now again in this particular book say 5800 Crores 576, Crores is the accrued interest?

Kapil Krishnan: Kunal sorry book size is around 8500. Could you just come again with your question?

Kunal Shah: 8500 Crores the accrued interest is 567 and on 8200 Crores last quarter, it was 520 Crores. I do not think there is too much of a change as such in terms of interest accrued. So I am not able to get as to why maybe the gross yields are actually moving up. So I think the better indicator is maybe if you can give the breakup in

terms of this 8500 Crores how much is actually accruing the interest and how much is which is not giving out the interest as compared that of Q1?

Kapil Krishnan: That figure as you know we have not been disclosing. So we can just make you can make your calculations based on the numbers that we have reported.

Kunal Shah: So assuming like the yields are stable there are no change in the card rates and given that the auction amount is there we should practice that?

Kapil Krishnan: Yes plus this figures is a very dynamic figure it changes everyday with changes in the gold price and also changes in the customer behavior on how much they repay. So there is no fixed figure on this which is why we do not disclose it actually, because if the gold price changes then the figure will change and if the customers pay up then we also have this effort on collecting interest. There are many factors that affect this figure.

Kunal Shah: The only thing is maybe in terms of the volatility in yields when it came of 200 bases point we mentioned like we are facing some kind of a competition and this is and that seems to be some kind of a structural issue. Now Q1 also it was near about that. All of a sudden we again saw like say 170, 160 basis points kind of an increase in yield. So I think may be what we saw in Q4 in terms of a competition that was not structural and we are seeing the yields going back to those levels. So I think may be the impact was on account of auction and not the structural competition, which was there in place. So is that true may be, are we still seeing that and may be yield should further come off and you highlighted like yield should sustain at the current level over next two quarters. So I am not able to get it may be when it was down 200 basis points we said like there is competition and it is structural and it can continue at the current level, but thereafter we had seen another 200 basis points kind of an improvement?

Kapil Krishnan: We had mentioned that the older book that we had which was disbursed at higher gold prices that is going to be almost fully out of the way in Q1-Q2 that we had mentioned and which has happened actually and which is why the net yields have gone up.

Kunal Shah: So in terms of card rate it would continue and yield should also broadly be stable?

Kapil Krishnan: The gross yields are again depending on competition, but there is no drastic change that we are seeing there.

Kunal Shah: Thank you.

Moderator: Thank you. We have next question from the line of Shri Shankar from Prabhudas Lilladher. Please go ahead.

Shri Shankar: I got couple of questions. This is with regard to your new businesses going on. Today, your yields are closer to 24% and healthy ROA of northwards of 3%. Now when these new businesses come in, where will it lead to your yields and would it will lead to your ROA and that three years from now 25% of your business you target it to be from these new businesses, isn't it?

V.P. Nandakumar: As far as microfinance industry is concerned, the ROA is around 2% plus, in the home finance because of lower opex we hope we will be able to maintain around 2.5% to 2.75% ROA. In the vehicle finance business we are catering to the requirements of small borrowers and we hope to maintain around 3% ROA.

Shri Shankar: But Mr. Nandakumar if I may say so, our ticket sizes are going to be much lower there are lot of those competitors and when the ticket size becomes low, my opex also become high, but if I give probably Rs.1 Crore loan, the same effort is taken to giving for a LCV of 3 lakhs in the sense of processing in terms of everything else, but the opex in terms of costing does not change much?

V.P. Nandakumar: See opex will be definitely lower the reason is these are purchased products for a longer tenure because of the longer tenure the possibility of growth of this product will be higher than the short term loans. So in order to operate that the number of people required maybe lower and as far as vehicle finance is concerned, we plan to use the infrastructure. Only the people requirement is there. So what we expect is opex to be around 3% to 4%, so which is lower by 2% than our core business. So the yield expected is around 20%, so the contracted rate to be around 19% with that the yield would be around 21%, 22%, so with that we feel like maintaining 3% ROA in vehicle finance business is possible. In the microfinance business, the targeted company itself is having an ROA of around 2% and the home finance also for small companies they are able to maintain that maybe for initial periods it may be slightly lower. We will able to maintain that.

Shri Shankar: Anyway I will come back offline later regarding the yield question to the earlier question continuation, but the final question is do you believe that incremental capital on a consolidated entity as a consolidated entity that you are putting into the business is going to give you lesser returns than what you are generating today assuming that this is steady state, you do not have that LTV going all over the place not even LTV, the gold prices moving away, so NPA is not increasing in a steady state business?

- V.P. Nandakumar:** You may be right, but at the same time there is risk mitigation as per regulation norm. All of us know with a single product, there is a concentration risk, so that is what we have faced during the last three to four quarters, so the other two advantages are even if on business is not able to grow, the other business may grow. That potential is there. So overall the company gets the advantage.
- Shri Shankar:** Thank you and all the best.
- Moderator:** Thank you. We have next question from the line of Pooja Swami from Span Capital. Please go ahead.
- Pooja Swami:** I have couple of questions. My first question would be you mentioned that you are venturing into this couple of businesses, so just wanted to understand what will be your capital commitments in these two businesses this year and next year?
- V.P. Nandakumar:** Both the business put together maybe around Rs.200 Crores.
- Pooja Swami:** 200 Crores, this is for this year or may be?
- V.P. Nandakumar:** In another one year, 12 months from now on.
- Pooja Swami:** Since you have this capital commitment, would it be safe to assume that there will be cut in dividend or would you continue to pay this quarterly dividend?
- V.P. Nandakumar:** Now we have underutilized capital, so setting up about Rs.200 Crores from the existing business where we have the tier 1 capital of around 26%, I do not think because of this there is need for cut down the dividend payout.
- Pooja Swami:** So you will maintain this quarterly dividend of 0.45 paise which you are paying?
- V.P. Nandakumar:** Hope so.
- Pooja Swami:** Sir my last question is on the LTV, you mentioned your LTVs around Rs.1850, so are you comfortable with this level or would you try to reduce this further?
- V.P. Nandakumar:** This is our maximum LTV for our three-month product. For the one year product, it will be around Rs.1700.
- Pooja Swami:** Thank you Sir and wish you all the best.

Moderator: Thank you. We have next question from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: Sir my question has been answered. Thanks.

Moderator: Thank you. We have next question from the line of Gokul Maheshwari from Allard Partners. Please go ahead.

Gokul Maheshwari: Just a followup on the new businesses you mentioned that you are looking to target 25% of AUMs over the next three years. Is there an absolute number which you are targeting for the AUMs for these three businesses?

V.P. Nandakumar: These are new business, these are our plans actually. We are trying our level best that these businesses yield around 25% of our portfolio. That is all.

Gokul Maheshwari: But in that context, do you see where, what will be the gold loan business over the next three years I mean given steady state of gold price?

V.P. Nandakumar: This year what we target is around 10% to 15% growth, from the bottom level of Rs.8200 Crores that is our target and in the coming years we are improving our sales network everything to see a growth of around 15% to 20% that could be around 15% to 20% could be the CAGR as far as gold loan is concerned. What we target during the next three years is around 20% to 25% of the portfolio from the new lines of business.

Gokul Maheshwari: Thank you and all the best.

Moderator: Thank you. We have next question from the line of Rahul Soni from Baljit Securities. Please go ahead.

Rahul Soni: I want to understand what is your target revenue distribution from your core business that is gold loan business and the three new businesses, three years down the line what will be the picture of the segments?

V.P. Nandakumar: Our expectation is around 80% comes from the core business and the balance 20% comes from the new lines of business.

Rahul Soni: Thank you.

Moderator: Thank you. We have next question from the line of Gopinathan, who is an Individual Investor. Please go ahead.

- Gopinathan:** Sir I just wanted to know how the ROE will, get affected that was not answered I think because of the new businesses that are coming in.
- V.P. Nandakumar:** This quarter we have a double digit ROE around 12% and our intention is to improve that and improve that to around 18% to 20% in the times to come. In the next three years definitely we have the ambition to do that.
- Gopinathan:** I mean the ROE improvement, are you expecting it to come more from the new businesses especially from the microfinance one or which one it is?
- V.P. Nandakumar:** We feel like all these businesses will give us more or less the same ROE.
- Kapil Krishnan:** Actually leverage more the ROE will continue to improve.
- V.P. Nandakumar:** As you know we can leverage higher and loan products will be for a longer duration of 10 to 15 years the opex in the industry is around 0.5%.
- Gopinathan:** I was wondering why we are having so high capital adequacy ratio from a long time now you had explained.
- V.P. Nandakumar:** We share your concern.
- Gopinathan:** Thank you very much.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Santanu Chakrabarti for his closing remarks. Over to you Sir!
- Santanu Chakrabarti:** Thank you Karuna. Many thanks to Manappuram Management and all the call participants for such a vibrant discussion. The call will now be closed. Have a great day.
- V.P. Nandakumar:** Thank you so much. Thank you everyone for joining.
- Moderator:** Thank you Sir. Ladies and gentlemen, on behalf of ICICI Securities Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.