



“Manappuram Finance Limited
Q1 FY 23 Earnings Conference Call”

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MANAGEMENT:

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MODERATOR:

MS. SHWETA DAPTARDAR – ELARA SECURITIES PRIVATE LIMITED

Moderator:

Ladies and gentlemen, good day and welcome to the Manappuram Finance Q1 FY'23 Earnings Conference Call hosted by Elara Securities Private Limited. As a reminder, all participants lines will be in 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 Shweta Daptardar from Elara Securities. Thank you, and over to you, ma'am.

Shweta Daptardar: Thank you, Kathy. Good evening, everyone. On behalf of Elara Capital, we welcome you all to the earnings conference call of Manappuram Finance Limited to discuss the Q1 FY'23 performance. From the esteemed management, we have with us today Mr. V. P. Nandakumar, MD and CEO; Ms. Bindu A.L., CFO; Mr. B N Raveendra Babu, MD Asirvad Microfinance Limited; Mr. Rajesh Namboodiripad, CFO Asirvad Microfinance Limited; Mr. K Senthil Kumar, Head Vehicle and Equipment Finance; Mr. Suveen P.S., CEO, Manappuram Home Finance; Mr. Bikash Kumar Mishra, CFO Manappuram Home Finance.

Without further ado, I now hand over the call to Mr. Nandakumar for his opening comments post which we can open the floor for Q&A. Thank you, and over to you, sir.

V.P. Nandakumar: Thank you, Shweta. Good evening, ladies and gentlemen. Welcome to our Q1 FY'23 conference call. In our last concall, I made a reference to the rather uneven recovery of the economy and its impact on our growth. We have now been able to see a momentum picking up and we hope to capitalize on the upbeat mood in the coming quarter.

However, a discussion of the macroeconomics scenario has to take note of the intense speculation about a possible downturn in the U.S. economy, its global impacts and the concerns on the rupee exchange rates. But going by result indicators there is every likelihood that India will be able to tame the external headwinds and come out of this phase as an outlier. In an important decision, that came on July 1st, The Central Bank hiked the customs duty of gold from 7.5% to 12.5% to create more fiscal headroom and we don't foresee any negative impact on gold prices or the gold loan business. Rural India shows good promise with tractor sales going up, and the digital penetration reaching unprecedented levels, even though the inflation is slowing down the recovery process to an extent.

In the last con call, I also talked about competition among NBFCs and how we decided to take a more prudent approach rather than engaging in non-economical market phenomenon. So, the gold loan portfolio of the company stands at INR 20,471 crore, representing a growth of 23.6% when compared with the first quarter FY'22. Overall, the consolidated assets under management has reached INR 30,760 crore, representing an increase of 24.3% over the year ago quarter, and up by 1.6% quarter-on-quarter. The consolidated net profit of INR 282 crore is an improvement of 8% over the preceding quarter.

There is more competition now in the gold loan sector but we are not unduly worried because there is still a lot of untapped potential.

At Manappuram we believe in long-term growth and not short-term gain. We are really optimistic about long-term prospects of the company's microfinance subsidiary, Asirvad, which has an AUM of INR 7,013 crore showing a growth of 15.8% year-on-year. The latest guideline by RBI for MFI, especially the removal of the 10% spread cap has created a playing field and is expected to expand the market for all players including us.

We have seen maximum growth in the Vehicle Finance business recording 68% increase year-on-year with an AUM of NR1,755 crore. The home loan business asset has reached INR875 crore registering a 3.49% increase over the corresponding quarter in FY'22.

MSME and others have increased to INR 1,113 crore as of 30th June 2022.

For a more comprehensive review of our financial performance, I hand the floor to our CFO, Ms. Bindu A.L.

Bindu A.L.:

Thank you, sir. Good evening, ladies and gentlemen, and thank you all for joining us. Now coming to the operational overview, our consolidated AUM for Q1 FY'23 was INR30,760 crore, up by 1.6% Q-on-Q and up by 24.3 percentage by year-wise. Consolidated profit after tax was INR282 crore for Q1 FY'23, which was up by 8% Q-o-Q. ROE on a consolidated basis was 13% and ROA was 3.3% for the quarter ended June 2022. Our current leverage is currently only 2.8 times.

Our GNPA as on 30th June 2022 is at 1.43 % versus 2.95% during the previous quarter. We are carrying surplus liquidity across all businesses. Cash and cash equivalents on hand on a consolidated basis was INR2,150 crore and undrawn bank line was INR3,195 crore. Our CP exposure is only 1% of total borrowings in the standalone entity. Our ALM is well positioned across all the buckets. Standalone borrowing cost has gone up to 7.47% compared to 7.15% in Q4 FY'22 due to the repo rate hike of 90 basis points.

Talking about the gold loan business, it constitutes 67% of consolidated AUM and the remaining 33% comprises of microfinance, vehicle, housing and SME finance. Gold loan AUM increased by 1.5 % Q-on-Q and up by 23.6 %, Y-o-Y. Gold loan yield improved to 19.4% in Q1 and thereafter 21.7% in July compared to 18.8% into Q4 FY'22. During the quarter, we were able to add 4.2 lakh new customers. Gold loan average ticket size and average duration was INR56,272 and 84 days, respectively. Our whole

standalone PAT was INR290 crore, up by 9.4% Q-on-Q and down by 31.8% Y-o-Y. ROE at 14.4% versus 13.5% is in March 2022. Total number of gold loan customers are 24.5 lakh, with gold loan book at INR20,471 crore. Our weighted average LTV stands at INR3051 per gram or 65% of the gold price, as on 30th June 2022.

Coming to Microfinance, Asirvad AUM stands at INR7,013 crore, flat Q-o-Q and up by 16% Y-o-Y due to process changes and transition to revise RBI guidelines in April 2022, disbursements were low. Since May 2022 onwards monthly run rate of growth in MFI business is around INR150 crore, at an improved yield of 24% compared to 20.3% up to March 2022. Our collection efficiency from MFI business at 102% and disbursements during the quarter was INR1,098 crore. In the light of RBI's new MFI regulation, we are in the process of building a higher, secured gold loan book in Asirvad. The gold loan AUM as on 30th June 2022 in Asirvad stands at INR421 crore. Cumulative ECL provision in Asirvad is INR463 crore, net NPA stands at 1.91%.

Coming to Vehicle Finance business. We have reported an AUM of INR1,755 crore, which is up by 6.8% Q-o-Q and up by 68% Y-o-Y. Collection efficiency for the quarter was 100%. GNPA has come down to 4% from 6.7%.

The Home Loan business has a total book of INR875 crore, which is up by 3.5% Q-o-Q and 30.9% Y-o-Y. This business reported a profit of INR5.2 crore during the quarter. Collection efficiency is at 97%. GNPA is maintained at 5.9%.

Now to MSME and others, INR1,113 crore. Collection efficiency 107% and GNPA at 1.6%. Provisions and write-offs for the standalone entity at INR8.8 crore compared to only INR23.6 crore in Q4 FY'22. The board declared an interim dividend of INR0.75 for this quarter. Our capital position is strong and the company is well capitalized with a capital adequacy ratio of 31.4%. Consolidated net worth stands at INR8,574 crore [ph], book value at INR1.013.

We can now go for Q&A. Thank you.

Moderator: Thank you very much, madam. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Piran Engineer from CLSA. Please go ahead.

Piran Engineer: Yes. Hi. Thanks for taking my question. So, my first question is, what percentage of the book is still in teaser loan. Hello? Am I audible?

Bindu A.L: Yes Piran. It is around 10% of our book.

- Piran Engineer:** And this will mature in 2Q or what? When does this sort of run down?
- Bindu A.L:** So it will be -- the maturity up to December '22.
- Piran Engineer:** Okay. And how do we really think about yields going forward? Right now 21.7%. Does it go back to that 25% level or does it settle around 22% to 23%?
- V.P. Nandakumar:** So I hope it will be settled around to 21% to 21.5%.
- Piran Engineer:** Okay. So, July yields is what is indicative of the future.
- V.P. Nandakumar:** Yes. Yes. This is indicative of the future, but if rates move further, the reference rates move further and borrowing costs escalate to that extent it may go up at this level, at the current level even at 50 bps increase in the policy rate. Then I think it will settle somewhere around 21% and 22% maximum.
- Piran Engineer:** Got it. And sir, second question on your Slide 17 where you talk to Q-o-Q growth of gold loan for the banks, this is only personal gold loan, right? You're not taking --?
- Bindu A.L:** The data that we have taken.
- V.P. Nandakumar:** It is only personal gold loan.
- Bindu A.L:** Yes.
- Piran Engineer:** So, banks you are saying now are becoming less competitive. What about competition within the NBFC space of either the stand-alone gold financiers or the multi-product NBFCs who also do gold loan? How is competition from them?
- V.P. Nandakumar:** Look, competition is there for the new product. Competition would be there. What I said is, even though there is competition and the competitive landscape may enlarge also, but in India, we have vast custody of gold. And, yes, there is a gold bought in also to the tune of around 800 tonnes to 1000 tonnes annually and that major portion is still going for jewelry, the workhouse of jewelry et cetera. So, when the competition landscape increases, widens, the family gold also increases. And so, we can expect competition. Most players will come, but at the same time the possibilities and opportunities are also increasing.
- Piran Engineer:** No, but I mean, are they more competitive today than they were six months back or competition has gone down a bit from then?

V.P. Nandakumar: It is...

Piran Engineer: I understand competition will always be there, but is it more or is it less?

V.P. Nandakumar: See, the competition is similar to what it was six months back. The current situation is, from the lower performance the demand has not come to the level of pre-COVID. So. it is very evident from other segments also that there is lot of small ticket borrowing. Yes, whether it is small ticket borrowing for housing finance or two-wheeler, small cars, so the demand is yet to pick up to the level of pre-COVID. But at the same time, it is showing consistent improvement. Particularly for the gold loan, the demand starts from school re-openings season, et cetera. We have seen some demand and the real demand comes when in the agri, sowing season starts. Sowing season starts post monsoon. From September onwards it will start. So we hope, by that time, with the segment where the demand is seen less now also will catch up.

Piran Engineer: Okay. Okay. And sir, just one other thing that if growth remains sluggish as we are delivering 1% or 2% Q-o-Q, will the industry not again reintroduce teaser loans to gain, to get some growth ticket? Like if you can happen again in Diwali, right? Or is that not a possibility?

V.P. Nandakumar: Yes. See, what we look at these, yes, we have also introduced some teaser schemes. Now after doing that, what we feel is, we should always have an eye on the profitability. So with an eye on profitability, we want to give importance to the yield now. So we want to see a stable yield in the sense that it will not go down below 20% to 21%. And within that, what is the growth percent, we feel like it is possible, so we hope here situations will improve.

Another picture for us is, Asirvad coming back particularly in the background of the regulatory changes for removing NIM cap and allowing these companies to up to 25% of the non-NIM portfolio, which we are utilizing to build the gold loan portfolio. That is, we have started that. And overall, it has grown around INR400 crore. I feel like this quarter will have; I mean there will be significant growth there. And other businesses like commercial vehicle finance, MSME finance, these are also showing good rate of growth. So, things are going to improve from here onwards. And the things should come back very soon.

Piran Engineer: Got it. Sir, just lastly. Muthoot got RBI approval to open 150 new branches last month. Any update for us?

V.P. Nandakumar: So, we are also waiting. Yes, we are awaiting that.

- Piran Engineer:** Okay. Anything more you can share on that front?
- V.P. Nandakumar:** Yes. They have conducted an inspection and there are some action points which we can do during this quarter and hope once these are completed, we will also get the branch opening permission.
- Piran Engineer:** Okay. Understood. Thank you, sir and all the best.
- V.P. Nandakumar:** Okay.
- Moderator:** The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.
- Sanket Chheda:** Yes. Hi, sir. So, my question was on again, yields. We are seeing that in July yields have moved to 21.7%. And we are saying that moving ahead, it should stay at 20% to 21%. Then how should we look at growth in the gold loan book? What should we aspire for this year going ahead?
- V.P. Nandakumar:** So yes, so today the growth is flat, but we all hope that the improvement will take place. The improvement will happen when demand from the lower level really catches up. I hope this will catch up soon with the sowing season which will start just after this month. So, we hope things will improve from September. So, gold loan is stagnant now. But I see the other segments already growing like commercial vehicle segment, MSME segment are showing quality growth. And also, our MFI also will perform well in the coming quarters and I expect, we are able to clear to the pre-COVID portfolio, which is not very significant now. So this will happen in the next two quarters, hopefully, then it will come back to model of around 5% ROA. So, this will significantly support the consolidated balance sheet and P&L.
- Sanket Chheda:** Okay. So as of now, you are not putting any number on gold or overall AUM gold loan?
- V.P. Nandakumar:** No, no. Gold loan, I have said around 10% growth. You have seen, we could, a figure around less than 2%. So, I have the hope that in the coming quarters, it will pick up. I am not saying the growth will be achieved, it will pick up, this is my hope, whereas in all of the segments, we will achieve a growth much more than 20%.
- Sanket Chheda:** Okay. Okay. And while sir competitions from banks, you are saying it is the same to what it was at six months back but then are we seeing any competition from unorganized space? Are any signs of that shift happening, from unorganized to organized, because now the differential has widened, though we are at 20%, 21% versus 22%

earlier, the differential has widened. So, are we seeing anything on that front?

Sanket Chheda: So, for the unorganized sector, as well as the NBFCs for renewal, for improving the yield, the demand should come from lower-middle class. Lower middle class in the sense that who borrows an average of INR 1 lakh or below INR 1 lakh. This is a segment which will definitely help us on two things. One, push of the AUM up and also the yield up. That segment this year.

V.P. Nandakumar: To catch up fully. So, this is what I've said early, in this segment across all business, the demand is less. So, post monsoon, I hope things will pick up. We expected that to pick up when those school reopening season starts. There was some growth but after that this year the spend without these lower segment was less, but post-COVID, post monsoon, when they go for purchasing fertilizer, sowing assets et cetera., they have no other way, but to have the working capital and by the time I hope it will catch up. So that the targeted growth would be possible in the coming months.

Sanket Chheda: Okay. Sir, and last question from my side. Have we provided anything on contingency on our Assam Expert or they are out of our MFI book or do we see any potential gain out there in the coming quarters?

V.P. Nandakumar: So the collection in MFI segment during the quarter end reached at 102%. So we are able to collect beyond the ability. So, on an average. I am telling on an average. And specifically to Assam we are first of all, we have a small portfolio and we don't have -- we didn't have the portfolio in branches as well, which actually saw a serious recovery problem. So, in Assam also the collection -- our collection saw come back to similar to other states. There is only a marginal decline compared to the neighboring state.

Sanket Chheda: Sure, sir. Those were the questions from me.

Moderator: The next question is from the line of Alpesh from IIFL Securities. Please go ahead.

Alpesh Mehta: Yes, hi. Good evening, sir. First question is on the Slide Number 18 when I see the 1Q auctions which were at INR1500 crore, and when I see the 4Q auctions, which are right around INR920 crore. But however, the impact on the yield in March was significantly higher as compared to June in numbers that we have reported in 1Q. What was the specific reason? You have mentioned that there is a one-time auction? What was that exactly and why the loss was relatively less in 1Q of last year?

- Bindu A.L:** So, slide 18 you're talking about the yield slide, right?
- Alpesh Mehta:** Yield slide. Right. Yes, that's right.
- Bindu A.L:** Yes. So March '22, the yield has come down due to the auction. You were aware...
- Alpesh Mehta:** What was the exact figure Bindu, what was the auction amount in March, the one-time loss related to that, for the auction?
- Bindu A.L:** For that, I will come back. It was around INR1,000 crore. Q4 was INR920 crore.
- Alpesh Mehta:** No, auction for March month, you have mentioned INR618 crore, but there is no specific amount given for the losses related to that.
- Bindu A.L:** Yes. So overall, there was an impact on the overall yield due to two reasons. One is the low yield product, plus this auction loss. The specific number of auction loss on account of this INR618 crore auction, I will come back to you.
- Alpesh Mehta:** Okay. And then if I correlate this auction for 4Q versus 1Q of last year, the yield was not impacted so much in 1Q FY'22 day got impacted significantly in 4Q FY'22?
- Bindu A.L:** Okay. So if we compare the auctions in Q1 of FY'22, we were at 25%, 26% yield.
- Alpesh Mehta:** Yes. But the auctions were almost INR1550 crore whereas when you look at the 4Q FY'22 yield, yield was 18.8% but the auctions were two-third of what was there in 1Q FY'22. I understand there was obviously pricing pressures related to the product. But auction-related losses seem to be significantly up.
- Bindu A.L:** Yes. So, two reasons. One is the lower yielding product we were at a low yield. Every month it was coming down. So I get back with the details of how much relating to the yield issue and the auction loss.
- Alpesh Mehta:** Okay. The second question is on gold loan. Now on the gold loan branches, in Asirvad we have opened 320 branches which are dedicated specifically to gold loan. So, do we have to go through the RBI to get the approval related to that, once we cross the threshold of INR1000 crore, we don't have to go to the RBI for that?
- V.P. Nandakumar:** See, 1000 branches alone is not the criteria. It is one of the criteria. So for Asirvad, even if it crosses 1000 branches, we need not go. Because there is another thing. This is applicable only for gold loan company. As long as portfolio is below 80%, it is not defined as a

gold loan company. Anyway, but in MFI there is a cap of 25%. Beyond 25%, the non-MFI portfolios cannot grow. So, the question doesn't arise.

Alpesh Mehta: So, basically we can open the gold loan specific branches in Asirvad without going to RBI?

V.P. Nandakumar: Yes. Without prior approval.

Alpesh Mehta: Okay and the branch reclassification, which has the number of branches reduced in the previous quarter which is on Slide number 27 related to Asirvad, is it because of this reclassification?

V.P. Nandakumar: Branch decline?

Alpesh Mehta: So when I looked at Slide number 27, the Asirvad branches reported for FY'22, 1062, whereas in the previous quarter it was 1500 plus. Is there any reclassification here?

Bindu A.L.: So, one is MFI branches and other one is including gold loan branches.

Alpesh Mehta: Okay. So earlier we used to report including gold loan branches now it's dedicated MFI branches.

Bindu A.L.: Yes.

V.P. Nandakumar: It is MFI branches and gold loan branches.

Alpesh Mehta: Okay just the last question, the Asirvad AUM which is reported on slide number 26 which is INR7000 crore, whereas in the earlier slides the MFI related AUM around INR6400 crore. So, difference is the gold loan in Asirvad?

Bindu A.L.: Yes. INR421 crore gold loan and INR6500 all the numbers in MFI.

Alpesh Mehta: Okay. And in case of Asirvad our cost of points declined almost 30 basis points whereas, I see for the standalone operations which has gone up and the higher yielding borrowing that got matured in Asirvad or something from PSL related anything that will decide over it?

Bindu A.L.: With the NIM cap removal we are taking a lot of efforts to reduce the cost of borrowing in Asirvad. Earlier it was borrowing costs plus 10%. So, we are negotiating with the lenders and that is a return some high cost of borrowing with the surplus liquidity they were able to repay, and that is the reason they were able to maintain the borrowing cost with slight 10%.

- Alpesh Mehta:** Okay. And sir, what is your experience related to this RBI new guidelines related to the calculation of the AUM gold income in the MFI business, are you seeing any impact on your business or, what percentage of the portfolio was already qualified that could you like to be? Any experience based on the implementation on that household income calculation?
- Bindu A.L.:** Household income calculation.
- V.P. Nandakumar:** Yes, yes. Household income. See, the RBI guidelines accordingly, we changed our software and our field staff is trained. So we started doing like from the very beginning.
- Alpesh Mehta:** Okay. So, was entire...
- V.P. Nandakumar:** We captured the household income, et cetera, and stuff and we are capping the maximum at 50% to the EMI repayments et cetera, whatever has been, whatever amendments have been made in the regulation has been implemented and controlled using the software.
- Alpesh Mehta:** Any impact on our outstanding portfolio because of this implementation?
- V.P. Nandakumar:** No, not outstanding. So this is on the incremental portfolio only. No, that is why this is possible. So there is no impact on the outstanding portfolio.
- Alpesh Mehta:** Okay. Great. Thank you, and all the best.
- V.P. Nandakumar:** Thank you.
- Moderator:** The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** Madam, Bindu madam, first thing, rather than talking about yields, I would say, can you kind of guide on the spreads that we will be looking to maintain because I understand yields could be a function of how interest rates kind of behave or how, what actions RBI takes. So if you could just help us understand, I mean while the spreads have improved on a sequential basis, while you have already shared yields on 21.7% as in July, can you help us understand, I mean where was cost of borrowings in July? Just to understand what kind of spread that in making now?
- Bindu A.L.:** Okay. So we were at 19.7% gold loan yield in Q1 and our overall AUM limit is around 19.7% and 7.47% is our cost of borrowing. But

the increasing yield is higher than the increase in cost of borrowing. And that is the reason we expect an improvement in the spread.

Abhijit Tibrewal: So when 7.47%, this was the cost of borrowings as on, let's say in June quarter. What is the cost of borrowings as on July? So, comparable number for 21.7% yields that you have reported as in July?

Bindu A.L.: So this July it is not very different. It depends on the new roll over which we are doing. So, during the quarter, we expect that another only 25 basis points to 30 basis points increase in the cost of borrowing.

Abhijit Tibrewal: Got it. And secondly, I mean I was seeing except for the first 20 days of April there, I mean the gold prices that actually spiked, there was not a very I mean significant change in gold prices at least during the first quarter. So I mean how do we kind of explain the sequential decline in your gold holdings?

V.P. Nandakumar: See, the gold holding will decline with the prices going up because see people are borrowing to meet their requirements and they have, they know the necessity and they are redeeming it in the time frame. So they internally held the calculation of both the cash flow and affordability to borrow, as far as gold loan is concerned, unlike many other loans. So, when the gold price goes up, LTV is absolute amount goes up, the tonnage will decrease. The reverse is with gold price going down.

Abhijit Tibrewal: Okay. So, sir, on Slide number 6, where you have given inventory for the quarter and you talked about pruning the lowering the higher ticket size 6.9% teaser in gold loan portfolio, which you also suggested is about 10% of our book and is expected to run off by December this year. Two quick questions here. I mean, one thing is, I mean how are you seeing that you are looking to prune this portfolio? Are you talking about the run downs that happens in the normal course or something that we happen to kind of here, that I mean during the quarter, a lot of other gold finance companies actually reached out to customers and were requesting them to kind of increase the rates, basically move from 6.9% to mid-year 9.9% or 10.9%?

V.P. Nandakumar: So this is a natural liquidation process in that. So they are postponing redemption not based on the interest rates. So the average life of the loan is around 100 days to 150 days. So this is a natural reduction process, not been taken over by the other NBFC.

Abhijit Tibrewal: Okay. Sir, my last question is on your MFI business I don't know if I am kind of reading it right, I mean that is the stage 3 could be increase from 1.7% to 7.7%?

V.P. Nandakumar: Which one?

Bindu A.L.: MFI stage 3, as you are aware, last year, there were resolution plans available to customers and June '21 we had a higher restructuring book and we were continuously following up the collection but expecting that only we keep providing something extra. And now, if they are building and if they are not paying for three, four months, this will flip to Stage 3. So this structured book, whatever stress is there that is materialized during this quarter.

Abhijit Tibrewal: Okay. So, madam, just a last follow-up question here, which means that I mean the stress, which was there, specifically talking about in the restructured pool of air MFI business, that's all reflecting in the 7.7% now?

Bindu A.L.: Yes.

Abhijit Tibrewal: So now the follow-up question here was that I mean I think somewhere on Slide number 6, you have also talked about credit cost now expected to decline going forward from your MFI business. So, I mean what we've been seeing over the last three to four quarters, we've been doing credit cost of about INR100 crore to INR120 crore odd in MFI business. So what would be the run rate, like in terms of the 100% MFI business and going ahead assuming what you suggested last part of the stress has already slipped to stage 3 now?

Bindu A.L.: Okay. So we expect a substantial reduction in the credit cost in the coming quarters. So it is that we will see, we expect from and in September to some extent and things should be much better in the second half of the year. So we are expecting some kind of 1%, 1.5% of ROA for this year, is our expectation.

So that is the reason we feel that on whatever the stress in the portfolio, it like to Stage 3 and because of this provisioning, we were able to manage this in this quarter. So going forward, we expect the credit cost to come down and it will be a better ROA in the second half of the year.

Abhijit Tibrewal: Got t.

V.P. Nandakumar: See, post-COVID portfolio is somewhere around 88% now. So, it is on 88% and there the collection, if you see, is nearly 99%. Whereas pre-COVID portfolio has come down to around 12%. So, there also collection, so we hope will improve even from the full year.

- Abhijit Tibrewal:** Got it, sir. So this is very, very useful.
- V.P. Nandakumar:** Yes. And now, for incremental disbursal the NIM is around 15%, increased from 10% using the relaxed regulation with regard to the NIM cap.
- Moderator:** The next question is from the line of Alpesh from IIFL Securities. Please go ahead.
- Alpesh Mehta:** Sir, if I see your home loan that has been a continuous reduction in the average ticket size related to?
- V.P. Nandakumar:** So, the reason we focused on high yielding loans, small ticket loans to improve on the yield. So that's the reason. So now, we started focusing on saving higher ticket. But so we hope it will grow slowly. We are expecting that to take around INR10 lakhs in another quarter, incremental.
- Alpesh Mehta:** Okay. So what would be the average yield on the incremental business?
- V.P. Nandakumar:** Now it is, on our incremental portfolio, we are getting a yield of around 16%.
- Alpesh Mehta:** And what was it when the average ticket size was around INR10 lakhs?
- V.P. Nandakumar:** So, earlier it was hovering around to 14% plus. So it has improved by 150 bps. On the incremental portfolio, it has gone up by 200 bps. from the three quarters in past.
- Alpesh Mehta:** Because this numbers are not reflected into the yields that you report on the outstanding portfolio. The outstanding portfolio yields remained at around 14% since many quarters?
- V.P. Nandakumar:** It is 16%, now.
- Alpesh Mehta:** In the home construction, its 16%, outstanding portfolio, at least what is reported in the PPT is around 14%, if I'm not wrong, whereas the share of home loan has gone up. Average ticket size has come down but the average yields remain more or less similar at around 14%.
- V.P. Nandakumar:** Average has improved. Quarter-on-quarter earlier it was like around 15%. Now it is 16.09% around.
- Alpesh Mehta:** Okay. Because what is reported in the PPT in the Slide number 13.

V.P. Nandakumar: No there are three bifurcations, home loan, home construction and LAP.

Alpesh Mehta: Yes, so the home loan is showing 14%.

V.P. Nandakumar: Home loans are basically like purchase ready property where like we give that 14% around and home construction is self-construction property where like stage wise construction funding we are doing that is 16%, and for LAP portfolio, other than housing loan that is 18%. Rated average overall is 16.09%.

Alpesh Mehta: Perfect. So I'm talking about the home loans by the way.

V.P. Nandakumar: The home loan includes construction, home construction as well. This is just bifurcation we have given, what is the construction pool. What is the purchase ready property?

Alpesh Mehta: Yes, sir, I understand that, but when you look at this 40% portfolio within the home loan, the housing finance, which is pure home loan business, the average ticket size is INR6.5lakhs rupees, this used to be INR10 lakh rupees few quarters backs and the yields that we had been reporting on this if it's 14% constant. So I'm just trying to understand what am I missing in this.

Bindu A.L.: We will come back on that.

Alpesh Mehta: Okay, great. Thank you. And all the best.

Moderator: The next question is from the line of Aalok Shah from Monarch Network. Please go ahead.

Aalok Shah: Thanks for the opportunity or said a couple of questions on the Microfinance book. One is, can you kind of help us understand the targeted trajectory on the Stage 3 assets? Where do we see that by end of this fiscal? And an extension to that, what is the guided credit cost for FY'23?

Bindu A.L.: Yes. So whatever restructured book fits into this quarter, and if you see the breakup, our stage 1 is almost 87% and stage 2 and stage 3 is 13%. So we believe that there will not be much addition and we are holding nearly INR462 crore provision against this Stage 2 and 3. So going forward. I think for the whole year, we are expecting much lesser credit costs, FY'22 we had almost INR400 crore P&L impact on account of credit loss and this year we expect much reduction, netting up to the first quarter impact, I think that number should come down.

Aalok Shah: So, do you want to put a number to it, madam or we expect the trajectory to move back to where we started?

V.P. Nandakumar: Rajesh?

Rajesh Namboodiripad: In this regard, I think most of it is already crystallized. So slight increase is only expected on this. So the number should hover some around this actually. This will turn more or less the same.

Aalok Shah: In that case, credit cost number will that kind of remain sticky for the coming quarters?

Rajesh Namboodiripad: No, the current live book, it would be, but going forward as book, I mean we close on some of it, it will come down in the by the March end.

Aalok Shah: Okay. My question is on the capital position in Asirvad Microfinance. We added 19.8%. So what is the thought through on augmenting capital in this year?

V.P. Nandakumar: You see the current capital adequacy ratio is really high. The leverage is around 2.8 times. So we have plenty of room to play around. So at the same time, if the environment is good, values are good, we are open to increased capital from the market also. So that idea is always open, but in the eventuality to ensure that the growth is not shortened or back to NAV. We will have required capital for the product.

Aalok Shah: Sure. And just one book keeping question, if I heard it right May onwards disbursements are INR150 crore.

Bindu A.L: Net growth.

V.P. Nandakumar: That is the net growth. Yes.

Bindu A.L: Disbursements are around INR550 crore to INR600 crore.

V.P. Nandakumar: INR500 crore to INR600 crore is the...yes.

Moderator: The next question is from the line of Ankit Patel from L&T Mutual Fund. Please go ahead.

Ankit Patel: Yes, good evening sir. Again, sorry to continue on this subject. You said that some of this book will run down, the MFI book, which will result in reducing credit cost and improvement of the Stage 1, Stage 2, Stage 3 split but unlike gold some of what will be the tenor over here that we are looking at and again, it could be unsecured kind of

facility. So do you believe that there would be losses on these accounts or what is the recoverability on these restructured accounts?

V.P. Nandakumar: See, the restructured accounts in different bucket is. Our collection efficiency is around 33% and before we hope it will further improve to around 40% plus. Yes in the coming days because while we have seen that it was lower than, lesser than that. So it is improving. It is showing. So for a month on month improvement. So this is on the impaired portfolio. So the post-COVID portfolio is around 88% now, nearly it is plus it is around 87%, 88% now. There the recoveries around 99%. And so the pre-COVID total portfolio is around 12%. There also the recover be is to the extent of one-third now, it is improving. So a sufficient provision have been take them in the past and during the next quarters, it will be over, and we expect to report the ROA of the business of around 1.5% during this year itself, last year quarter.

Bindu A.L: And then the average duration is around 24 months. So the pre-COVID book, March '20 book will be maturing now and because of this resolution plan, customer also not getting that impacted because their bureau records will be proper, as the restructuring also them to keep their bureau record clean. But as it is getting matured and slipped to NPA, now I think customers also showing more interest to close the loans and so that they will, they can continue as a standard loan.

Moderator: We take the last question from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Yes. So, sorry I lost two important questions. So what was the guidance on provision on the overall book and also on the MFI book for this year?

Bindu A.L: So this year, so the MFI book, we took almost INR120 crore in the first quarter. So in the coming quarters our expectation is much lesser credit cost. I think overall provisions half of last year is our expectation.

Sanket Chheda: For last year made about INR490 crore. You're saying INR250 crore of which INR130 crore we have already taken?

Bindu A.L: So, last year MFI alone also INR400 crore and on other portfolios also temporary there was spiked in NPA number. So, now all other businesses settled down almost with the pre-COVID NPA level. In the case of MFI, we expect half of last year.

- Sanket Chheda:** So INR200 crore MFI may be INR100 crore in other businesses should not exceed INR300 crore is that right? Is this assumption good?
- Bindu A.L:** Other business and we are not expecting that, because we are seeing stability.
- Sanket Chheda:** Okay. So what you have provided this quarter in totality, that much on the providing next three quarters put together?
- Bindu A.L:** Yes, so maybe an increase in the second quarter, then I think a normalized in second half.
- Moderator:** Thank you, ladies and gentlemen. With this I now hand the conference over to Shweta Daptardar for closing comments. Over to you, ma'am.
- Shweta Daptardar:** Thank you. On behalf Elara Capital, we thank the management of Manappuram Finance for giving us the opportunity to host the earnings call. Thank you all.
- V.P. Nandakumar:** Thank you.
- Bindu A.L:** Thank you.
- Rajesh Namboodiripad:** Thank you.
- Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of Elara Securities Private Limited that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.