



“Manappuram Finance Limited Q3 FY19 Earnings
Conference Call”

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Moderator: Good day, Ladies and Gentlemen and a very welcome to the Manappuram Finance Limited Q3 FY19 Earnings Conference Call hosted by PhillipCapital. 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 the operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Pradeep Agrawal from PhillipCapital. Thank you and over to you, sir.

Pradeep Agrawal: Thanks Ali. Good evening everyone and welcome to the Manappuram Q3 FY19 Earnings Call for Manappuram Finance. To discuss the results, we have with us Nandakumar – MD & CEO, Bindu A. L Chief Financial Officer and the other senior management team. I would now like to hand over the call to Mr. Nandakumar for his opening remarks. Over to you, sir.

VP Nandakumar: Ladies and gentlemen welcome to Manappuram’s Q3 Conference Call and thank you for joining us to discuss our results.

To begin with, I am pleased to announce that our performance during this quarter has been excellent especially against the challenging environment with the NBFCs facing a credit crunch and interest rate hardening.

Our consolidated assets under management grew by 21% to 17,783 crores while our consolidated net profit grew by 42% to 244 crores. We have not only achieved substantial growth in business volume and profitability, but importantly all our business has begun to contribute to our profits.

If you recall we began diversifying our business in 2014. Our idea was that we should capitalize on our huge customer base acquired since long in gold loan with a range of products that would capture customer’s other needs as well. In this way we hope to emerge as a multiproduct NBFC, five years down the road and I am happy to say this we are seeing good results from all our new businesses. At a forefront of our diversification is Asirvad Microfinance which register a very impressive growth during the quarter.

The growth in volumes was more than matched by growth in profits 33 crores compared to 2.9 crores in the year ago quarter. Given the trajectory of growth in Asirvad Microfinance we are now considering plants to raise equity in the near future.

Our commercial vehicle division has recorded rapid growth and thus a quarter nearly doubling its AUM to 975 crores from 500 crores last year. Our home loan subsidiary Manappuram Home finance reported an AUM growth of 40% to 478 crores. Put together all our non-gold business contributed nearly 30% of our consolidated AUM. In keeping with recent trend our average cost of borrowing has increased by nearly 50 bps to 9.7%, but importantly we were able to pass on the increase to our borrowers.

Despite the tight liquidity we faced now difficulties in renewing our existing credit line and also in obtaining new lines of credits.

Infact during the quarter for the first time we secured institutional funding and above. In October 2018 we have launched a public issue of secured NCDs that issue was fully subscribed and we raised about 250 crores. We have now launched our second tranche targeting around 150 crores the response of that has been encouraging.

Thank you and for a detail report that wrote the numbers it is over towards the CFO – Bindu A. L.

Bindu A. L:

For the quarter ended December 2018 our consolidated AUM stood at Rs. 17,783 crores and increase of 3.4% Q-on-Q and 21.4% year-on-year. Our consolidated income from operations was Rs. 181.2 crores an increase of 6.6% Q-on-Q and 24% year-on-year. The consolidated profit tax after minority interest was Rs. 244.1 crores compared with 221.4 crores for Q2 FY19 an increase of 10.3% Q-on-Q and 42.2% year-on-year. ROE on a consolidated basis was 23.02% annualized for the quarter ended December, 2018. Our gold holdings were 66.3 tons as at the period ended December 31, 2018 the holding is decreased by 1.58% Q-on-Q and up by 6.4% year-on-year. Our total number of gold loan customer stood at 23.8 lakh. The gold loan book at Rs. 12,525 crores which was up by 10.6% year-on-year. Auctions during the quarter were Rs. 187 crores as you are aware, we follow the policy of making regular auctions on overdue accounts. Our weighted average relatively stands as Rs. 1,890 or 65% of the current gold price. Gold loan disbursement during the quarter at Rs. 21,028 crores compared to Rs. 18,337 crores in Q2 FY19. The online gold loan book is steady which is accounted for 36% of total gold loan. During the current quarter the company was able to successfully pass on the increase in cost of borrowing to the customers.

Asirvad Microfinance had a closing AUM of Rs. 3,195 crores an increase of 17.1% Q-on-Q and 51.3% year-on-year. For Q3 FY19 the company made profit of Rs. 33.24 crores compared to Rs. 29.4 crores reported in Q2 FY19. The company made a provision of Rs. 5.3 crores in Q3 FY19 for doubtful loan. In IndAS transition we have provided 100% for loan due over 90 days. We provided Rs. 19.4 crores excess as compared to RBI Prudential norm. 100% of disbursement were made in a non-cash manner. Asirvad had 16.66 lakh customer, 928 branches and 4,872 employees. We are now present in 22 states it is now the 7th largest NBFC MFI in the country. Asirvad is amongst the lowest cost MFI lender in India with a cost to AUM ratio of 6.4%. The company has a capital adequacy ratio of 18.3%. Strong traction in vehicle finance business with AUM of 975.5 crores which is up by 19.4% Q-on-Q up by 95% year-on-year and stable asset quality of 2.4% GNPA as at 31st December, 2018. Business is now carried out of 157 branches across 21 states versus 93 branches across 19 states 1 year ago.

The home loan business had a total loan book of Rs. 478 crores which is up by 6.7% Q-on-Q. It now operates some 35 branches. The new businesses contributed 29.6% of consolidated AUM. Our average cost of borrowing during the quarter increased by 48 basis points to 9.37% which

did not impact the margin due to optimization of yield. We benefitted from significant operating leverage as overall OPEX only grew by 9.8% versus 21% growth in AUM. We have communicated to the market about significant savings in security cost a few quarters ago. We are pleased to announce that security have reduced from 44 crores per quarter in Q3 FY18 to Rs. 22 crores during the current quarter. Provision and write-offs for the standalone entity during the quarter were Rs. 1.4 crores. Our gross NPA was 0.58% at the end of the quarter. Loss assets due to theft, spurious gold etc., amount to only 0.4% of AUM.

The company's consolidated net worth stood at Rs. 4,341 crores as at 31st December, 2018. The book value per share stood at Rs. 51.51 of diversify business. The board declares in interim dividend of 55 paise for the quarter. The capital adequacy as at the end of December, 2018 was 26.36%. The total consolidated borrowing stood at Rs. 14,267 crores as at December, 2018 and the proportion of CPs has reduced from 24% to 21.6% year-on-year.

Now the floor is open for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just on the growth aspect first of all we have seen again the divergence in gold AUM and non-gold AUM and when do you see this sort of a divergence I mean there is a base impact also we had been guiding that we expect gold AUM growth to be closer to 15% do we see some sort of a pickup in that and secondly at what percentage of AUM are we comfortable because the non-gold AUM is already 30% so if this divergence continue we will be hitting closer to 40% in couple of years, so what sort of a level are we comfortable in terms of the mix between gold AUM and non-gold AUM and the second question would be on the increase in borrowing cost so we have already seen some inch up in borrowing cost, have we seen normalization in terms of the cost or we expect the Q4 to be at the same level at Q3 levels?

VP Nandakumar: The gold growth is yes you are right. We have been guiding little higher, but assessing the markets now we feel gold loan growth this year could be around 10%. So, during the last 9 months we have grown by 6% and probably this quarter should be better especially during March, etc., it used to be better so we may grow by 3%, 4% so that is our assessment now. For regarding copper yes, our overall objective is to become a well-diversified NBFC. Yes as you said currently our non-gold portfolio is around one-fifth probably it was in the next one or two years it could be 40% what we also believe maybe in another five years it maybe 50-50.

Ashish Sharma: So long-term is 50-50 and we will be comfortable at 40% even if it goes to 40% in next couple of years?

VP Nandakumar: Next couple of years see that is our overall objective to move away from concentration. It is only with that we started diversification. So non-gold portfolio we are getting a better price. The

borrowing cost is around 50 bps now. We believe that it may stay around somewhere there because now short-term borrowing is getting moderated, but of course the liquidity situation we come to an end. The liquidation situation because of some emerging scenario what we see in the media it is little unpredictable, but still we believe that it may get moderated it may get somewhere around this level in another 6 months.

Ashish Sharma: Sir just lastly on this rationalization of security cost so we have already seen that for the quarter are the cost is down 50% from 44 crores to 22 crores and for the 9 months it is around 30% down is the complete benefit of cash utilization will come in FY19, in FY20 this is the trend rates in terms of security cost it is going to continue is it the right assessment?

VP Nandakumar: The storage system we have a different physical inspection now and also the electronic gadgets to the electronic security. This is how we are replacing the old storage to new storage so there are some delay in getting this done because of the storage some of these branches have to be etc. So over a period of time when everything is completed the security cost may come down to around 40 crores from the peak of 140 crores, but it may take time. So quarter-to-quarter we believe that 4 crores to 5 crores reduction is possible.

Moderator: The first question is from the line of Jaiprakash Toshniwal from India First Life Insurance. Please go ahead.

Jaiprakash Toshniwal: Two questions one is we have enabling provision to invest 150 crores in Asirvad and 100 crores in home finance business when do we plan to do that and post 150 crores in Asirvad what would be our holding in the company?

VP Nandakumar: We may invest little more also depending upon the requirement and then of 50 crores we have already decided, but depending upon the requirement we have the plans to increase more, but of course what the investor may be enlisted. We have to have that in another three months' time.

Jaiprakash Toshniwal: And what will be our shareholding I mean right now we have roughly 92%?

VP Nandakumar: Right now, 92% so it will come down by if we are raising. we have a plan to raise up to \$100 million. So, if it is done our it may go down by 15, 16%.

Jaiprakash Toshniwal: So you are saying we are looking to get a PE funding in Asirvad financing or any other?

VP Nandakumar: That is right.

Jaiprakash Toshniwal: And sir the FY18 net worth of housing finance was roughly 92.5 crores, but I do not have the Q3 number and all so can you give me when do we invest that 100 crores in housing finance business?

VP Nandakumar: We have write-off of around 7 crores the net worth this is what you mean. So this year for the first time we are expecting a profit we are expecting some 2, 3 crores profit. From third quarter

onwards, the company has to brought us a reporting profit, but going forward the scenario would improve.

Jaiprakash Toshniwal: And just to repeat my question on Asirvad we are looking for a strategic investor or financial investor at this point?

VP Nandakumar: Financial investor.

Moderator: The next question is from the line of Aarsh Desai from Vallum Capital. Please go ahead.

Aarsh Desai: My question was with regards to a plan to acquire ISFC what stage has that reached I mean I think we are pending some RBI approval so with regards to that my one question is that?

VP Nandakumar: We are awaiting that.

Aarsh Desai: You are expecting it this quarter or something?

VP Nandakumar: This quarter last quarter we are expecting.

Aarsh Desai: Going forward for our gold loan business, what sort of branch expansion strategy do we see, do we plan to venture out further into East or West or how do we look at it in term of branch?

VP Nandakumar: We have opened around 50 branches and we have got the license to open another 150 branches that is our plan.

Aarsh Desai: Going forward where we look to open these branches in what areas?

VP Nandakumar: Our all India presence is skew towards the south. Now we want to have a balance presence. So our branch operation thrust area would be more in the South, Central and West this will be our thrust area for branch opening.

Aarsh Desai: With regards to your locker facility where you could keep your ornaments in Manappuram and we will loan at any point in time maybe post banking hours or anything of that so how is that product what is the traction in that space?

VP Nandakumar: One third of the portfolio is in digital mode online. So that will improve over a period of time.

Aarsh Desai: Have you all seen any additional pick up in your gold ornament that people are trying to avail a free locker facility vis-à-vis bank you just keep your gold in Manappuram and you also have the facility to get a loan at any point in time?

VP Nandakumar: Yes just after effectively marketing that so I think in the coming quarter it will improve. So far much to tell about the growth etc, but in the coming quarter we expect that took it off.

- Moderator:** The next question is from the line of Nikhil Dawda from Motilal Oswal Securities Limited. Please go ahead.
- Nikhil Dawda:** Just one question we were doing an NCD issue of 1,000 crores how much did we achieve there?
- VP Nandakumar:** 250 crores already achieved in the Branch-I the second branch is already opened with 150 crores I think we will be able to mobilize some 150 to 200 crores this quarter under this branch. So in four branches we plan to raise 1,000 crores.
- Nikhil Dawda:** When do we end the issue?
- VP Nandakumar:** The closing date is on 27 Feb.
- Moderator:** The next question is from the line of Prateek Agrawal from ASK Investment Managers. Please go ahead.
- Prateek Agrawal:** You shared a loan to LTV ratio that is significantly lower than what the regulatory limits are one does it imply that the demand for the gold loan is less or does it imply that over the next quarter one can see stronger growth in gold related AUM so that is one. The other question is now that government of India has now is giving Rs. 6000 a year to 12 crores Indian of the same target group that MFI is focusing at, does it impact the prospect of MFI business?
- VP Nandakumar:** The LTV is 60% because now the customer in the digital the customer can buy his gold and will loan at anytime from anywhere so some of the customers are availing 50% or 30%, 25% there is no restriction. So actually, that is pulling down our average LTV in a way it is good it is a lower LTV is definitely is risk mitigation against the price fluctuation. So regarding the MFI side the promoter and MD Mr. Raja Vaidyanathan is on the line.
- Raja Vaidyanathan:** The scheme announced by the budget for 6,000 is for farmers of holding a certain amount of land. Target for MFI remained predominantly 99% to 100% demand and we do not have directly farmers. So there is no big overlap at all in fact that we are saying this as a major plus because we are looking at whether we can have a new product where they can leverage this 6,000 and some of us can give a higher loan that is what we are looking at it. Certainly will not have any adverse impact on the MFI.
- Moderator:** The next question is from the line of Anand Bhawnani from Unifi Capital. Please go ahead.
- Anand Bhawnani:** Sir with respect to housing finance if you can help us understand what is the overall guidance of FY21 what is the kind of AUM that you are expecting to attain?
- Jeevan Kumar:** As of this year as of December end of course we have reached a target of around 480 crores and as of now we have crossed over 500 crores mark. Our aspirational targeting for next year would be to double the area because now most of the growth facilitators are in place. We have also been able to get a handle on the overall delinquency. We will definitely scale up from now

onwards and I think our aspirational target would be double this around 1,000 crores for the next FY.

Anand Bhawnani: Sir with respect to our funding cost do you anticipate Q4 as a whole of company level funding cost would be lower than Q3 or you expect it to remain at the same level?

Bindu A. L: We are expecting the same rate for Q4.

Anand Bhawnani: A lot of CP have normalized any particular reason that you are not expecting it to fall?

Bindu A. L: In Q3 also it gradually increased to 2, 9.75% is our incremental cost of borrowing. So from 920 it went up to 975 so the decline also will be in that trend only that is the reason we are expecting at the same level.

Anand Bhawnani: What is the current marginal cost of borrowing for us in CP market?

Bindu A.L: CP is around 8.

Moderator: The next question is from the line of Vaibhav Kacholia from VK Capital.

Vaibhav Kacholia: Sir in a housing finance what is our incremental yields on mortgages?

Jeevan Kumar: It is around 15%.

Vaibhav Kacholia: Sir are we seeing any competition in urban center from banks and all?

Jeevan Kumar: Not really the type of profile we have, but our concern there is that with a good track record of over a year or so some of the better customers get pulled up at lower rates of interest by some banks that is our challenge is other than per se going for a new loan and especially the type of profile we do and the type of profile banks normally do there is a lot of difference. So to that extent it is not a direct challenge but as I mentioned there is also in respect of season the borrower there is a challenge in terms of retaining the better customer.

Vaibhav Kacholia: What is the percentage of balance transfer sir?

Jeevan Kumar: Around 3% to 3.5% I would say.

Vaibhav Kacholia: So in this space that balance transfer competition from banks will keep growing in the future?

Jeevan Kumar: So to the extent that the corporate lending does not open up banks will definitely be looking at retail pie for the growth so to that extent of course they are in the same field because you noticed in the last 4, 5 years banks have been very strong in the retail space especially housing and car loans and vehicle loans. So this is a field where banks are there we cannot reach them, but then by going to our niche markets and niche segments and going for micro market strategy I think

we will be going to places where the banks normally would not venture out. So to that extent yes we are not that much worried about that.

Vaibhav Kacholia: In Tier-2, Tier-3 is a bank competition is much less?

Jeevan Kumar: For the type of profiles we are doing especially in affordable I think it is manageable because they are mostly into the documented income and the better type of profile whereas we are in the undocumented the CMP segment.

Moderator: The next question is from the line of Amit Rane from Quantum Securities. Please go ahead.

Amit Rane: Sir I just want to understand how much scope is there for us to improve on the yields because we are on the higher side related competition?

VP Nandakumar: In gold loan our product is different from the market. Our product life is three months only. So our ticket size is around Rs. 30,000. So small ticket short term loans we have like credit card borrowing. So, an average life is two and half months which already we have passed on whatever risk was there. I think even 10, 20 basis points increase also we will be able to pass on.

Amit Rane: Sir during the quarter how much we have hiked the rates?

VP Nandakumar: Our yield has gone up by 50 bps this is primarily because we are offering some rebates. So some of the rebates are withdrawn it is not by taking the interest rates some rebates are given some of these are withdrawn.

Amit Rane: And sir in your presentation we are saying there were some operational process changes so can you explain what are the changes which impacted growth on Page-IV of the presentation?

VP Nandakumar: No there are no operational changes which has impacted growth. If in any areas if our growth is impacted it is not because of rational changes, but because of the market.

Amit Rane: No, I was reading from your presentation Page-IV of the presentations there are three reasons. One is the lumpiness in the gold loan market seasonal lumpiness second one is Gaja cyclone and third is a change in the certain operational process that is why I was asking basically because first two factors are not likely to repeat in Q4?

VP Nandakumar: Some structural changes I have made in the operation like some of the actual functions have distributed now loans, etc. So initially there was some hike in the cost, but over a period of time that cost will come down. So the actual HR cost also we are expecting good reduction over a period of time. So we have done something positive for the future

Amit Rane: Our disbursement has gone up by 15% on a Q-on-Q basis in gold loan while our gold loan portfolio has gone down by 0.5%.

- VP Nandakumar:** Yes correct.
- Amit Rane:** Sir can you give the auction number for this quarter and the last quarter?
- Bindu A.L:** I have already told Rs. 187 crores during the quarter.
- Amit Rane:** What was this number last in Q2?
- Bindu A.L:** 104.
- Moderator:** The next question is from the line of Mridul Jalan from Senora Advisors. Please go ahead.
- Mridul Jalan:** Just wanted to understand in terms of MFI business in gold loan do we target the same set of customers if so how do we differentiate which loan to give to them?
- VP Nandakumar:** See MFI customers are at the bottom of pyramid. They are from the lowest set of society whereas our gold loan customer as a top of that. So on an average our gold loan customers have got around 20 grams of gold, 20 grams of gold at today's rate if not to purchase that they have to sell out at around Rs. 75,000. These are not same customer but MFI customers will migrate to gold loan customers some of these customers may buy gold and they may start their own business there were some cottage industries etcetera. So slowly they will migrate as gold loan customers so these are not same set of customers.
- Mridul Jalan:** So is it fair to say that the growth in the MFI customers are not coming at the cost of gold loan customers because there is some set of confusion if we focus too much on MFI growth are we comprising on our gold loan opportunity, business opportunity or not is what I am trying to understand?
- VP Nandakumar:** These are different set of customers.
- Moderator:** The next question is from the line of Siddharth Rajpurohit from JHP securities. Please go ahead.
- Siddharth Rajpurohit:** Sir OPEX to NIM is continuously decreasing sir, so do we have any internal target in this of this quarter or next year what we can achieve?
- VP Nandakumar:** Our OPEX will come down. So overall this thing will be net interest margin will improve.
- Siddharth Rajpurohit:** Any specific number if that is a target with respect to AUM or any specific numbers that you are targeting?
- VP Nandakumar:** We expect the OPEX to come down by 1% in another 1 year.
- Siddharth Rajpurohit:** This is to the NIM or you are telling to the AUM. I do not know if you have given this number can you give me the guidance for gold loan growth?

- VP Nandakumar:** See we are expecting the AUM growth of around 15% in any year, but so far, we could achieve only 6% and we expect the last quarter should be better and we expect it to improve to 8% to 10% towards the end of this financial year.
- Siddharth Rajpurohit:** So 8% to 10% you are telling for the quarter or for next year?
- VP Nandakumar:** Full year.
- Siddharth Rajpurohit:** And next year sir?
- VP Nandakumar:** Next year we see is gold loan some lumpiness we have seen we are expecting 10% to 15% growth.
- Moderator:** The next question is from the line of Venkant Subramaniam from Organic Capital. Please go ahead.
- Venkant Subramaniam:** I just wanted Mr. Nandakumar broad assessment of the gold loan market because as he said in the previous comment this fair amount of lumpiness in gold loan not just quarter-to-quarter, but even year-on-year. It is at a time when a lot of banks have taken a lot of heat trying to do this business, what is the opportunity, what is the large board market side and what are the dynamics in this business mix?
- VP Nandakumar:** See there are three major players in gold loan business the largest jump is done in corporate bodies. And the second largest jump is the bank and corporative and third is the NBFC sector so the smallest amongst the least in this quarter. The advantage of an incorporate body is there is no LTV cap, etc., they lend 80% and 100%, 200% all depending upon the requirement so always they carry that much and for them there are several ways of using the unaccounted money also so that is incorporate side then second comes bank. Banks are the second largest. The guesstimated gold in the country maybe around 30,000 tons and major of that is the family gold and annually bought is 800-1,000 crores so this is where the gold of market jewelry market, etc., and gold loan in the organized sector the total loan I am not very pretty sure but my estimate is that could be around 3 lakh crores out of that in the NBFC sector maybe around 75,000 crores so maybe distributed among all NBFCs put together. So this is the structure and the advantage of NBFC lower bank we are available on all the 6 days for 8 hours every day and through our online gold loan scheme, etc., we are available 24 hours. So our apprehension are with the past we had 50, 60 customers on an average every day for dispersal and equal number for coming for service. So NBFC advantage on availability to the customer and for redemption and also the technology high focus etcetera. So the bank advantage is per rate of interest, but for the customer who is an availing a loan for a shorter time of 75 days or 60 days or 90 days, etc., the rate of interest is not very material what is important is the excess availability so that is why NBFCs are preferred. So that is why complete to the average growth of gold loan in the bank NBFC sector is excellent I feel like this will continue. So this growth for the average growth for the 9 month has been 10.6% I have mentioned earlier it is 10.6% and we believe that 10% to 15%

growth annually is possible for that is CAGR for the next three, four that is our expectation so it will continue.

Venkant Subramaniam: What are the factor that figure higher loan growth and what are the factors that kind of filter because there are times when in some years you have much higher growth and there are some years it is very muted, so what are the triggers under what condition do people borrow against loan?

VP Nandakumar: See if the agriculture sector is doing well the farm growth is good the demand for home loan also goes up because after that increase in cultivation everything goes up with that. So there will be an increase demand this is one of the key factors driving that.

Venkant Subramaniam: If the farm growth is good you are saying gold loan also will increase?

VP Nandakumar: The reason is increase in farming that increases so people will get more involved in this etc. So this is a key factor for gold loan growth.

Venkant Subramaniam: Couple of company specific question our business per branch was on the uptake but it is kind of actually planned to compared to competition, what number are we standing just now and what is strategy to grow it?

VP Nandakumar: Our tonnage growth maybe around 10% to 15% else we do not have any considerable growth in number of branches see this will go on improving.

Venkant Subramaniam: Lastly our CFO actually mentioned during the presentation that Asirvad has probably the lowest OPEX to AUM can you expand on that. She talked about single digit number.

Raja Vaidyanathan: Our call now OPEX to the expenses to the AUM and MFI respective varies from 10% to 12% to as low as 5% to 6%. We are at the lower end of the segment we are at 6.4% now and we are planning to reduce it below sixth in 1920 so that is an advantage the company has.

Moderator: The next question is from the line of Anuj Jain from Value Quest Capital. Please go ahead.

Anuj Jain: The last caller you mentioned that in the organized gold loan market we have two sets of pair banks in NBFC how the in the organized gold loan market we have two set of pair banks in NBFC how the market share is split in these organized segments for gold loan?

VP Nandakumar: That is two-third and one-third, two-third is banks.

Anuj Jain: Secondly what is the typical end-use of gold loan for your customers?

VP Nandakumar: Around one-third is going for farming activities which includes dairy, etc., and one third for micro units, micro business, micro cottage industries, etc., as working capital and around 30%

to 33% for consumption this is what we have studied. We made a study around five to six year back a very detailed study across the country this is the result.

Anuj Jain: Like how many of our new loans are to the old customers?

VP Nandakumar: 80%.

Anuj Jain: And these new loans are like basically the new loans or they are rollovers?

VP Nandakumar: Mostly new loans because they are already in the loan and after one or two months when the money is available, they come and redeem then another two, three months' time when there is a requirement they come and borrow. It is just like they see this as like credit card borrowing.

Anuj Jain: And lastly like what is our philosophy before adding any branch in terms of how we renovate the location and what is the general target economic for a particular branch?

VP Nandakumar: There is not much thing because across the country there is jeweler every corner you will see a contractor then how do we desire for if a concept of banks and the NBFCs are less in a particular area for example Assam or Gujarat or Bihar and that would be our destination.

Anuj Jain: And what is the target economics of branch of a particular branch do we have any internal target set for branch in terms of ROE?

VP Nandakumar: Yes, our target is it should achieve breakeven in 1 year. So in order to breakeven we should have an AUM of around 1.5 crores. So the CAPEX for a branch will be around 15 lakh. So the initial employee cost could be around 1.5 lakh.

Moderator: The next question is from the line of Sagar Sanghvi from Add capital. Please go ahead.

Sagar Sanghvi: Sir just want to get an understand of your MFI business, so what we understand is the MFI is an acquisition engine for your gold finance business, so once you acquire a customer and later move into a gold finance business so is the understanding correct that is the one and what are the credit need of an MFI customer when they move up the value chain?

VP Nandakumar: We do not consider that as an acquisition inching but it is a business definitely there are opportunities. What is the second part of the question?

Sagar Sanghvi: So how many of your MFI customers would have been turned into a gold finance customer and what are the credit needs of an MFI customer once they move up the value chain so can the converted into two-wheeler finance customer and MSME customer or consumer durable customer?

VP Nandakumar: Actually, we are truckers, but if we do this only my guesstimate, we will do that we will do enough of an ledger at least 15% will be gold loan customer.

- Moderator:** The next question is from the line of Rajeev Agarwal from Sterling Capital. Please go ahead.
- Rajeev Agarwal:** Sir I want to know out of the total gold loan AUM how much is of three-month duration and how much is of longer duration currently?
- VP Nandakumar:** Entire portfolio is three months.
- Rajeev Agarwal:** And sir regarding this housing finance business how much can you give the breakup how much are self-employed or salary something like that?
- Jeevan Kumar:** Salary will be around 10.86% then self-employed is lesser than that, but mostly self employed, non-professional constitutes around 89%.
- Rajeev Agarwal:** This large portion how do you decide what are the credit parameters we used to or what are the credit metric we used to decide to give a loan to people who do not have much documentation?
- Jeevan Kumar:** Yes, there is a set process and that is our niche segment and that is our niche market. So we over a period of time hold our skills in that segment there is also a personal discussion format which the credit officer does by visiting residence property making inquiry and also we have standard set of templates for various profile where we make an assessment that in case it is a petty shop what will be the daily receipts, what will be the cash flows like and similar for various business over a period of time our understand of the sector in micro market has improved and that is why we go and lend to these people.
- Rajeev Agarwal:** In last commercial vehicle finance are we lending to only new vehicle owners or do we use vehicle financing also?
- Senthilkumar :** We have 80% of portfolio in the used business. We do have a mix of around 80-20, 80 favor of use and 20% in favor of the new vehicles.
- Moderator:** The next question is from the line of Anand Bhawnani from Unifi Capital. Please go ahead.
- Anand Bhawnani:** Sir I have two questions. Sir with respect to our decision to kind of auction of gold quicker than the competition do not you think it creates an incentive for customers to move to other NBFCs who lend against old jewelry, how are we overcoming any such customer accretions?
- VP Nandakumar:** Gold loan is purely a collateral base lending if the collateral is strong, we can lend up to 75%. So the customer have to auction all the time, customer have to auction to have the loan continuously according to his needs if he wants for three years, four years he can continue. So by curtailing the tenure three months means at least once in three months or four months he has to remit and pay interest and also reset at the new LTVs this is what we have said. In this way actually, we are bringing some discipline to the customer like more or less like an EMI. If the EMI is serviced monthly for the customer it is easy. If two months arrears are there, he will find more difficulty. So similarly, for instead of longing for one year if he remains interest in every

quarter it will be easy for him. In fact, this has reduced our auction percentage considerably. So that means the customer is actually benefitted, it is not driving away to the customer who feel the benefit and we will get discipline customer and customer base with which you can cross sale our products too.

Anand Bhawnani: Sir my second question is about customer complaints I see that we had about 17,600 customer complaints in FY18 whereas the competition which is bigger than just 322 customer complaints, so is there any particular reason that we have higher number of like it is 58 times the competitor which is bigger than us so any particular reason that we have higher customer complaints?

VP Nandakumar: So, I do not know from where have you got this number.

Anand Bhawnani: In report we both have to give I mean NBFC lending gold have to give the customer data so in your annual report we have given for FY18 it was 17,600, FY17 it was 10,500 and whereas for bigger competitors the number of complaints is like 300 in FY18 and 198 in FY17 so remarkably lower than ours?

VP Nandakumar: See all this includes the inquiries everything it is not only is a person availed the loan, person inquire the loan they talk about an action is obtained on time, these complaints also are taken into account, but not from the customer but also from the public, etc., so all these are put together.

Anand Bhawnani: Sir still the number is humongous it is 58 times?

VP Nandakumar: See we disperse around 30, 000, 40,000 loans a day so what about the annual number it is around small ticket short term loan. So, the millions of customers are calling maybe tons of customers are calling out of that may be able to get say connect, etc. So the thing is we are transparent in reporting.

Moderator: As there are no further questions, I now hand the conference over to Mr. Pradeep Agarwal for closing comments.

Pradeep Agarwal: Thanks Ali. I would like to thank Mr. Nandakumar, Ms. Bindu and the entire senior management team of Manappuram Finance and all the participants for joining us on the call today. Thank you and good bye.

Moderator: Thank you. Ladies and gentlemen on behalf of PhillipCapital that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines. Thank you.