



## “Manappuram Finance Limited Q4 FY-20 Earnings Conference Call”

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**MODERATOR: MR. ABHISHEK MURARKA – IIFL SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY20 Earnings Conference Call of Manappuram Finance Limited. This call is hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities. Thank you and over to you, sir.

**Abhishek Murarka:** Good Evening everyone and welcome to the conference call. From the management team we have Mr. V P Nandakumar – Managing Director & CEO; Ms. Bindu – Chief Financial Officer; Mr. Raja Vaidyanathan – Managing Director, Asirvad Microfinance; Mr. Jeevan Das Narayan – Managing Director, Manappuram Home Finance; Mr. K. Senthil Kumar – CEO, Vehicle & Equipment Finance; and Mr. Salil Bawa – Head-Investor Relations.

We thank the management for providing us the opportunity to host the call. And I will promptly hand it over to Salil to start off the discussion and then we will open it up for Q&A.

**Salil Bawa:** Good evening everyone. Thank you for joining our Q4 FY20 results conference call. Apologies for postponing the call by 30 minutes. We did not want to have a clash with FM's press conference today so that is why at the last minute we had to shift the time by 30 minutes. Apologies again for the same.

During the discussions today, we will be referring to the Q4 FY20 investor presentation uploaded to the exchange and on our website. I would like to state that some of the statements in today's discussions may be forward-looking in nature and may involve certain risks and uncertainties. I would request you all to read the detailed disclaimers in our result document also.

With this I would now like to invite Mr. Nandakumar to begin the proceedings of the call. Over to you, sir.

**V P Nandakumar:** Ladies and gentlemen, welcome to Manappuram Finance Q4 FY '20 Conference Call. Our purpose today is to discuss our Q4 performance, but we meet under the shadow of a global pandemic that has darkened the outlook for all business and the economy. Let me then take this opportunity to put things in a macro perspective as far as Manappuram Finance is concerned.

As you know, gold loans have been the dominant share of our company's business mix accounting to for over two-thirds of our total portfolio. Our past experience is that during periods of economic stress banks can really become risk averse and gold will offer on lending. The global financial crisis in 2008-09 was when major economies went into recession and stock markets crashed.

But looking back there was also a period of strong growth for us. Yes, for the lockdown during Phase 1, we kept all our offices closed, new customer acquisition came to a halt and collections were affected.

However, by focusing on online channels, we kept the momentum going. And we were able to restore collections in gold loans even as our branches remain closed. Today, as we near the end of Phase 3 of the lockdown, most of our branches are functional. Although customer footfalls are still low because public transport is not there. Recently, the government announced an economic package of Rs. 20 trillion to revive Indian economy.

Specifically, the loan guarantee scheme of Rs. 75,000 crores for NBFCs and the MFIs would help in easing the liquidity challenges faced by the NBFCs. Both the government and RBI are fully committed to do whatever it takes in addressing the challenges of the pandemic. Going forward, we expect demand to rise once restrictions come off and stall the businesses. Especially micro and small enterprises get back on their feet.

Coming to our Q4, we have achieved good increase in business volumes and profitability despite the impact of COVID-19 in the last month of the quarter. Some of the key performance highlights for Q4 are as follows.

Number one, our consolidated AUM has crossed Rs. 25,225 crores. Consolidated AUM is up by 29.8% year-on-year and 4.7% quarter-on-quarter. Two, gold loan AUM grew by 4.5% on a sequential basis and 30.9% on an year-on-year basis. This growth was driven by a combination of increase in gold holding which grew by 7.2% year-on-year and higher gold prices.

At the portfolio level our average LTV is less than 60% against RBI limit of 75%. Which means most of the customers have a lot of room to borrow more against their excessive ledgers.

Our microfinance subsidiary Asirvad Microfinance reported an AUM of Rs. 5,503 crores, an increase of 43.3% year-on-year and 9.66% quarter-on-quarter. The strategy focused on quality. Earlier we had a state wise cap on lending at 10%. Now we also have in place a district wise cap of 1% with a directive to reduce that to 0.5% in three years' time. At below 0.5% Asirvad has the lowest operational expenses in the industry.

Going forward, we expect some short term pain in our microfinance portfolio after the moratorium. However, based on our experience in dealing with the episodes of stress in the segment, we are much more positive about the medium and long term.

India's automobile sector has been facing a slowdown for the last one year or so and our commercial vehicle finance business saw higher GNPA's, aggregated by the lockdown. Our housing portfolio is relatively small, and it has been steady in terms of asset quality. During the quarter, the company consciously chose to reduce its on lending portfolio to NBFC.

That is loan to small NBFCs and MFIs. Given the stress in the macro environment. On the liquidity front, we continue to receive funds from all the routes AP rollovers are continuing we are getting funds from our banks and AMC partners. The incremental cost of one today is at 9.4%. On the liability side, we have raised the standalone basis Rs. 3,978 crores in Q4 of FY20 with the objective of further diversifying our funding portfolio and bring down the dependence on short term sources.

We do not expect any funding challenges to come in the way of our growth plans and we are comfortably placed with our ALM which we monitor very closely. The overall OPEX has come down by 0.22% in Q4 as compared to Q3 mainly due to savings in security costs.

We have now set up a committee that will focus exclusively on optimizing costs and bring down the operating expenses further by looking at the areas besides security costs. Finally, we are reporting a consolidated quarterly net profit of Rs. 392.7 crores for Q4 FY20 and Rs. 1,461.8 crores for FY20 and these are the highest profits ever.

Thank you and now it is over to our CFO, Mrs. Bindu for a detailed look at that numbers.

**Bindu AL:**

Thank you very much, sir. Thank you all for attending the call. The company has taken several proactive measures to deal with the impact of COVID, including ensuring adequate liquidity across each entity within the group. Cash and cash equivalents one hand on a consolidated basis was Rs. 3,646 crores at the end of March 2020, and the numbers at the end of April was approximately Rs. 2,525 crores, and undrawn bank line of another Rs. 1,518 crores.

Improving the ALM position and significantly increasing the duration of our liabilities. The company has taken several cost initiatives that is partly reflected in the OPEX ratio, reducing from 7.64% of AUM during the previous quarter to 6.76% of AUM on standalone basis in the current quarter. OPEX growth is expected to further moderate going forward.

We are following a cautious approach to the growth of non-gold book with this soft macro environment. The company has increased the focus on digital collections and customer communications.

Let me take you through the earnings update for the quarter that has gone by. Our consolidated AUM for Q4 FY20 was Rs. 25,225 crores up by 29.8% year-on-year and 4.7% quarter-on-quarter. Consolidated profit after tax after minority interest was Rs. 392.7 crores for Q4 FY20. Growth of 43% year-on-year.

FY20 consolidated PAT stands at Rs. 1,461.8 crores. ROE on a consolidated basis was 28.2% and ROA of 5.7% for the quarter ended March 2020. Talking about the gold loan business, which constitutes 67.3% of consolidated AUM. The ALM increased by 30.9% year-on-year and 4.5% Q-on-Q.

The gold holdings stood at 72.39 tons and the tonnage increased by 7.2% year-on-year and down by 1.5% quarter-on-quarter. Gold loan average ticket size and average duration were Rs. 38,500 and 58 days respectively.

The Board has approved a policy on moratorium to the opted-in customers. Most of our gold loan customers have preferred not to opt for moratorium as they realize the deferment of payments without the waiver of interest would add to their interest outflow. The total number of gold loan customers stood at 26.23 lakhs. The gold loan book at Rs. 16,967 crores.

Auctions during the quarter were Rs. 15.23 crores. As the lockdown started only from 24th March 2020, we completed the auctions due before lockdown itself. Our weighted average LTV stands at Rs. 2,945 per gram or 59% of current gold price.

Gold loan disbursement during the quarter at Rs. 51,912 crores compared to Rs. 40,3204 crores in Q3 FY20. The online gold loan book is growing which accounted for 48% of total gold loan. Coming to microfinance business Asirvad grew by 43.3% year-on-year at Rs. 5,502.6 crores and delivered 25.5% ROE in FY20. Collections in March 2020 Rs. 290 crores were accounted as advance received due to the moratorium offered by Asirvad and AUM is higher to that extent.

As a reminder Asirvad MFI is now amongst the lowest cost providers of microfinance launched in India with a diversified geographical footprint and prudent lending norm. The company is rated AA minus stable by CRISIL, the highest credit rating in the MFI sector.

For Q4 FY '20, the company made a profit of Rs. 60.08 crores. We provided 100% for loans due over 90 days, 50% on loans due between 60 to 90 and 10% provision on loans between 1 to 60 days. We provided additional Rs. 55.02 crores during Q4 due to COVID-19, which is 1% of total AUM.

We also recognized Rs. 55.45 crores as income from assignment transactions during the current quarter, which has partly offset the impact of COVID additional provisions. The company has a capital adequacy ratio of 25.4%. Coming to Vehicle Finance. In the business, we have reported an AUM of Rs. 1,344 crores, which is down by 3.8% Q-on-Q and up by 20.6% year-on-year. Home loan business had a total book of Rs. 629.6 crores, which is up 4.7% Q-on-Q and up by 21.4% year-on-year. It operates from 47 branches and reported a profit of Rs. 10.48 crores during FY '20.

Loan to NBFCs reduced by 13.7% Q-on-Q to Rs. 554 crores as we did not disburse any loan during FY '20. Loans to SME and others were stood at Rs. 227.4 crores. The new businesses contributed 32.7% of consolidated AUM and the remaining 67.3% as gold loan.

The total consolidated borrowings stood at Rs. 21,817 crores. Our standalone average cost of fund in Q4 has increased to 9.46% from 9.12% in Q3. We raised in Q4 Rs. 3,978.8 crores, through U.S. bonds, Rs. 2,128 crores, and NCD private placement of Rs. 1,350 crores and term loans of Rs. 500 crores. As on date, we are having nearly Rs. 2,700 crores liquidity.

Out of the same, 50% is kept as bank fixed deposits and 50% as cash credit lines. Between 1st April to till date, we could raise CPs of Rs. 1,375 crores and Rs. 100 crores under TLTRO. Provisions and write-offs of the stand-alone entity during the quarter were Rs. 36.96 crores, including additional provision of Rs. 14.9 crores due to COVID-19. Our gross NPA was 0.88% as of the end of quarter compared to 0.5% at the end of Q3 FY '20.

The company's consolidated net worth stood at Rs. 5,745 crores. The capital adequacy at 23.44% and the book value per share stood at Rs. 68.

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

**Moderator:** Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Love Sharma from Lombard Odier. Please go ahead.

**Love Sharma:** Just two questions from me. So, on the liquidity side, can you provide details about your any maturities for this quarter remaining from here on? I remember, I think there is significant some amount of cash working capital lines, which are due. So, any color on that, how that has been going on? And also, if you can also provide details for Q2 requirements for debt maturities?

Secondly, for the businesses outside of gold loan, especially the microfinance and the vehicle loans, et cetera, can you provide details about what are you seeing in terms of NPL I mean given this moratorium now, but what do you expect in terms of the NPL pressure there? Any specific requirement of funding in those businesses, specifically from the parent entity? So those will be very useful.

**A. L. Bindu AL:** Yes. So, liquidity, earlier, we were having a higher CP percentage and because of the fundraising in Q4, we could reduce the CP ratios to 11%. So, our maturities will be Rs. 1,800 crores over two months. So that is the maturity for CP. But during April, May, also, we could get the rollover and renew CPs. So that is the reason we are able to maintain the same liquidity, which is available at the end of the year.

And we are getting positive responses with regards to TLTRO. One transaction already completed. And we are working with the banks. And the response is positive. We may get new lines also. The first two months, slightly slow because of the audit, et cetera, in banks, but we are expecting sanctions in June. So, liquidity wise, I think things are better.

**VP Nandakumar:** So, about MFI, Mr. Raja Vaidyanathan, MD?

**Raja Vaidyanathan:** Yes, sir. But I thought he was asking about the liquidity position in Asirvad is very comfortable. We started with about Rs. 1,000 crores of liquidity at the beginning of April. And as it stands, we are very comfortable for the next two quarters, and we still we have undrawn balance of about close to Rs. 1,200 crores.

And in all new schemes, TLTROs and the short-term liquidity of SIDBI and NABARD, Asirvad is always at the top of this resuming of the liquidity because of it is the only AA Minus company in India in the MFI sector. So, we do not foresee any issue in liquidity at all in this company as of now. And I do not think we require any support, even from the parent, as going forward for the next 2, 3 quarters.

**VP Nandakumar:** NPL plus.

**Raja Vaidyanathan:** On the NPL particularly on the nonperforming thing, the biggest difference between earlier times and now, this crisis is, there is a moratorium, which is announced by the government itself, a very thoughtful scheme announced by the government, which will ease the pressure with the borrowers. And we feel because of this particular measure, the level of losses, which the company which the industry had earlier has been much eased off.

Demonetization was a very different story. So, we feel it is going to be much under control than what it was earlier. And the company was also very prudentially provided. We have got about another Rs. 50 crores we provided now for on additional 1%, Rs. 55 crores, we provided. And we are sitting pretty with about Rs. 100 crores of opening provision against future, plus as regards to the RBI, we are again, Rs. 50 crores more than what RBI requested us to provide. So, on all basis, we are quite conservative and well poised to tackle the crisis.

**VP Nandakumar:** CV, Senthil?

**K. Senthil Kumar:** Thank you, sir. Yes, we do expect some short-term pain for the next couple of months. But going forward, I think Vehicle Finance space will start looking better. As of March, we have around 10% of our customers who had opted for moratorium. And in fact, in the last 40 days, around 30% of them have come back and said that they are going to pay the EMI and they have paid.

And, like, I am sure, with things opening up in the next couple of weeks, I think these customers who had opted for moratorium will also come back and pay their installments. So, I think we do not see any significant pressure. Of course, there will be a short-term pain for the next two months. But going forward, I do not see any significant pressure on the portfolio in terms of moratorium or NPL for that matter.

**Love Sharma:** Yes, just a follow-up on the liquidity side. So, if I understood correctly, Rs. 1,800 crores is what is pending in terms of the CP repayment over the next 2 months. Is that correct?

**A. L. Bindu AL:** Yes. Already, we got Rs. 1,300 crores deals confirmed. So, the liquidity position will continue.

**Love Sharma:** Understood. And how about the bank working capital lines, et cetera? Because I think that was quite substantial as well?

**A. L. Bindu AL:** Yes. We got Rs. 100 crores TLTRO and another Rs. 200 crores of working capital limits from banks. And we are working with a few other transactions. So, I think it will come because April,

because of the lockdown and the audit normally the sanctions will be less. But the response is positive. So, we believe that we will get a few other sanctions in Q1.

**Love Sharma:** So, no issues in terms of rollover or additional working capital lines from bank?

**A. L. Bindu AL:** That is right.

**Love Sharma:** And sorry, just one more question from me. On the moratorium side, can you indicate how many customers, et cetera, have taken moratorium for the gold loan business?

**VP Nandakumar:** Gold loan business, very, very few. Hardly 5%. Very low.

**Love Sharma:** 5,000 customers, is that?

**VP Nandakumar:** No. Hardly 5% there. It is very low. Even though softer for moratorium.

**A. L. Bindu AL:** Only 100 customers.

**VP Nandakumar:** Yes, very, very low. And even though they have opted for moratorium also are coming forward and redeeming or servicing interest everything. So, this is particularly nothing. In CV, out of Rs. 1,400 crores portfolio, yes, around Rs. 650 crores had opted for moratorium, out of Rs. 1,400 crores. But some of them are paying even from those who opted for moratorium.

In housing finance, out of Rs. 650 crores of portfolio, around Rs. 200 crores, so that is the volume, have opted for moratorium. So, from there also, many customers have, yes, are paying now. Because they understand the difficulties there. So, the interest accrued on this portfolio. So many customers, when they get the money, when they have the liquidity, they are ready to pay.

**Moderator:** Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.

**Parag Jariwala:** So, I have three questions. One is just a clarification. The moratorium numbers which you have given so far is as on which date? Is it March or April? That is first. Secondly, what is on the outlook of growth particularly gold loans because as you have highlighted in the opening statement that banks have turned quite risk averse and the gold revenue is like good for the customer in this environment? And thirdly, out of our total branches what proportion of branches are now fully operational?

**V P Nandakumar:** So, the figures I have mentioned is as on April, about moratorium. Then see after the lockdown two, three weeks the first reaction would be to redeem the gold. So currently our 90% of the branches are open today, operational today. So, what happens is the redemption as well as the new pledges, the volume remains more or less the same.

- Parag Jariwala:** Sir, are we on the path let us say lockdown related business composition ends by June 30th. Then are we on the path to achieve the loan growth guidance as we have been facing for gold as well as other businesses?
- V P Nandakumar:** Yes, we hope so.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir, as you mentioned to the last caller that the loan growth guidance is maintained kind of. So FY21 would you like to share any kind of guidance?
- V P Nandakumar:** So, we cannot give you any guidance particularly in a situation which is there. But we hope the growth we usually achieve. That is around 10% and 15%.
- Deepak Poddar:** 10% gold loan and overall 15%?
- V P Nandakumar:** So, this year one, one-and-a-half quarters are lost. So, growth could be around this year's growth could be around 10%.
- Deepak Poddar:** Including all other businesses, right?
- V P Nandakumar:** Yes.
- Moderator:** Thank you. The next question is from the line of Shubhranshu Mishra from BoB Capital Market. Please go ahead.
- Shubhranshu Mishra:** First, if you can please elaborate on the growth number, sir. How do we arrive at this 10% that you are guiding for gold and then microfinance and vehicle? And we also do affordable housing. If you can elaborate on this growth number, it would be very helpful.
- VP Nandakumar:** So, in non-gold segments, initially, our thrust will be collection. So, we do not expect any growth in non-gold segment this year.
- Shubhranshu Mishra:** So which model then for a 0% growth in other subsidiaries, sir?
- VP Nandakumar:** Yes. No substantial growth is expected because initial years, we may be focusing more on collection. So, there can be some initial reduction in portfolio. So maybe during the last quarter or so, there could be some growth. But that cannot compensate, that will only compensate the reduction that could happen because of that. So, we do not expect any net growth in the portfolio during the year.
- Gold loan what we generally tell the market that we are able to grow around 10% to 18%. That is our usual sort of plan. So, it is not a guidance. In fact, it is our usual plan, which we used to

achieve. So, this year, as one-third of a year is lost, we expect the balance two-third, we may be able to grow at 10%. That is our plan.

**Shubhranshu Mishra:** Sure. And this would be more value-led growth or volume-led growth, sir, in gold loan?

**VP Nandakumar:** Yes. Gold, currently is Rs. 17,000 crores. May be in the range of, let us say, Rs. 1,500 crores and Rs. 1,700 crores to Rs. 2,000 crores. That maybe in that range. That is our plan.

**Shubhranshu Mishra:** And sir, one thing, in terms of a concept, sir, the gold loans are bullet repayment loans, sir? The moratorium is only on the term loans. How can we offer moratorium on volumes in that case?

**VP Nandakumar:** See, that is why the gold loan who have sought moratorium is very, very negligible.

**Shubhranshu Mishra:** No, sir, but can we give moratorium?

**VP Nandakumar:** Out of 2.6 million customers, the exact number of people who have opted for moratorium is around 100 only.

**Shubhranshu Mishra:** No, sir, that is not my question. My question is can we offer moratorium?

**VP Nandakumar:** Yes, there is a bullet repayment. Our foresee, our loan tenure is 3 months. Some people who may feel some difficulty in redeeming that at that point of time may ask for some moratorium. So, the exact figure I have around 100 people only have opted for moratorium as far as gold loan is concerned.

**Shubhranshu Mishra:** Sir, my question is not on the quantum, sir, my question is very conceptual. Can we offer moratorium, or can we not offer moratorium on gold loans?

**VP Nandakumar:** Yes, of course. The option is between the lender and the borrower. Yes. That is possible. Even the RBI has classified.

The second thing, yes, around 61% of our customers are online gold loan customers, who are mostly transacting regularly online. So, we are able to collect interest also whenever they transact for that day. So, our accrued interest is only of around 1.5 months, accrual is there. So, we are able to collect interest almost periodically.

**Shubhranshu Mishra:** And sir, I wanted to ask about your vehicle loan. Initially, in this conversation, we were told 10% of the customers have opted for moratorium. And then you said that Rs. 650 crores on a value basis have opted for moratorium. So which one is correct?

**VP Nandakumar:** No, see initially, out of Rs. 1,400 crores volume, so volume-wise Rs. 600 crores should have been under moratorium as per their request. And now that is not in practice, as Mr. Senthil has mentioned earlier. Many of the customers, when we ask them about moratorium, initially, they

said yes, we are opting for moratorium. But at the same time, many of them have paid. That means it was only a caution as far as they were concerned.

- Shubhranshu Mishra:** So how much of the Vehicle Finance portfolio is under moratorium as of April, sir?
- VP Nandakumar:** Yes. Senthil?
- K. Senthil Kumar:** Yes, sir. Just one small clarity. As sir said, around Rs. 650 crores customers I mean the portfolio was Rs. 650 crores, the customers that asked for moratorium. But later on, when we started speaking to them, I think customers realized the impact of the moratorium and they opted out of moratorium.
- As of March, we have around 10% of the customers who had opted for moratorium. That is around some Rs. 130 crores is the figure. And out of these Rs. 130 crores, 30% of the customers have come back and paid us. That is it.
- Shubhranshu Mishra:** So as of April, we have roughly around Rs. 90 crores under moratorium. Is that a correct understanding?
- K. Senthil Kumar:** Yes. In the sense April will be slightly higher because there are customers who opted for 3 months moratorium who moved to two months, and then who have moved to one month moratorium. So, in that way, like customers have come back to us and they have started reducing the number of months which they had requested for moratorium.
- April, yes, we do have around Rs. 100-odd crores who have requested for moratorium now. But we do have customers also come back and say that they have paid the April EMI, so probably they will opt for moratorium for one month. So probably.
- Shubhranshu Mishra:** What is the total value under moratorium for Vehicle Finance as of now?
- K. Senthil Kumar:** Around Rs. 130 crores as of now.
- Shubhranshu Mishra:** And sir, what are the total provisions we have taken for COVID-19 in each of the businesses, sir?
- VP Nandakumar:** COVID-19 portfolio?
- A. L. Bindu AL:** Yes. So yes, in Asirvad, we took 1%. In the stand-alone entity, additional is around Rs. 15 crores.
- Shubhranshu Mishra:** In stand-alone entity, how much we have taken, ma'am?
- A. L. Bindu AL:** Additional Rs. 15 crores.

**Shubhramshu Mishra:** And this is largely for the Vehicle Finance portfolio because we do it in the stand-alone business, right?

**A. L. Bindu AL:** Yes.

**Shubhramshu Mishra:** Sure, ma'am. And just one data keeping question, ma'am. If you can please tell me what the auctions are and weighted average LTV in percentage and then rupees?.

**A. L. Bindu AL:** Okay. Auctions during the quarter, Rs. 15 crores. And the weighted average LTV on portfolio, 59%.

**Shubhramshu Mishra:** And in rupees, ma'am?

**A. L. Bindu AL:** Rs. 2,345.

**Shubhramshu Mishra:** And the accrued interest in crores?

**A. L. Bindu AL:** 3%.

**Shubhramshu Mishra:** And just one feedback, ma'am. It is a sincere request if you can put out the results much before the call, ma'am. Here we had the call and we got the results, like, just some minutes before it. We have barely punched in the numbers in our model. And I get the point that there was a Finance Minister's call as well concurrently but that does not stop us from uploading the results on the stock exchange.

**A. L. Bindu AL:** Yes, we will take your point, definitely. If any further detail is required, we are available. And next time, definitely, we will address this concern.

**VP Nandakumar:** Shubhramshu, your point is noted. Thank you.

**Moderator:** Thank you. The next question is from the line of Utsav Gogirwar from Investec. Please go ahead.

**Utsav Gogirwar:** Sir, my first question is with respect to auction strategy. Just want to understand, during the call you mentioned 90% of the branches are operational as of today. What is our strategy of auctioning over the next 3 to 6 months? That is first question. And secondly, related to that, how the gross NPA would move in your view?

**V P Nandakumar:** The auction strategy is maybe for another 2 months. So, we may not conduct any auction. What we see our auction percentage on the What we see our auction percentage on the dispersal is 0.5% only. So, they have a headroom to renew the loan because when the gold price has gone up, there is some headroom. They need not bring the full interest in such cases.

So, I do not think there will be much to auction. And I do not think the gross NPA to move up drastically in the coming quarters.

- Utsav Gogirwar:** For gold finance actually?
- V P Nandakumar:** Yes, initially, this quarter, there may be some spike, maybe there, some slight spike will be there. But in 1 or 2 quarters, it will get flattened and come down.
- Utsav Gogirwar:** Sir, just want to check one number. The cash-on-cash equivalent as on April is Rs. 2,500 crores which mentioned. Is that correct number?
- Bindu AL:** Consolidated was around Rs. 3,600 crores.
- Utsav Gogirwar:** As on April?
- Bindu AL:** No, as on 31st March. And as on 30th April, cash Rs. 2,500 crores and another Rs. 1,500 crores underline.
- Utsav Gogirwar:** So, this usage of around Rs. 1,000 crores, is it just because there was liquidity issues and we have utilized this cash and in the coming quarters we plan to increase the liquidity on the balance sheet or how should we look at it?
- Bindu AL:** Yes, so as on 31st March we carried in books because the limit got approved and year end is important for the lenders also we availed. But during the quarter, we reduced the carrying costs. And we are keeping as underline. That will save the cost.
- Utsav Gogirwar:** Okay. And just last question from my side. What percentage of so post-April have we disbursed any loan in the gold business and if yes, what percentage of customers came to the branch or the new customer we have seen? Just a rough sense.
- Bindu AL:** Disbursement numbers are very high.
- V P Nandakumar:** Yes, we were disbursing around Rs. 700 crores every day even on an average every day even during the lockdown period. Our branches are closed. As I mentioned around 60% of the gold loans are online. So many customers were transacting through these online because we have two apps, we have other online facilities. So, they were transacting. So, the volumes are very high.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.
- Nischint Chawathe:** Just one question on the vehicle finance side. If you could help us understand the profile of your customers because what we understand is that most of the vehicles are on the road. So obviously, it is challenging for customers to pay installments. But I guess, a very few of your customers are actually opting for moratorium.
- So, I am just trying to understand in terms of other vehicles actually on the road, are they paying from their savings? And what exactly is the income profile of your vehicle owners?

**K. Senthil Kumar:** We addressed the retail side of the portfolio. We do not have much focus on the fleet operators. Our portfolio will consist of one or two vehicle customers. In terms of the repayment capacity yes, I know the entire industry is through a stress. But one advantage we have with that are since we address the retail end of the portfolio we do not have customers who really go on a very long haul or who are running contracts with big industries. In that way, their load movement or the freight movement is very versatile.

They can either fly interstate or even in our LCV and the SCV portfolio, they will be flying intercity. In that way, I feel the retail customers are in a much more advantageous position when compared to the large set of customers. And in terms of, yes, we do have, as of March only 10% of the customers are adopted for moratorium. We have been continuously following with the customers and we have been in touch with them.

In fact, most of our collections, around 50% of our collection, 60% to 70% of collections are through online mode either through directly through Nach presentations or through indigenously developed App through which customer can transfer payment into these accounts.

As I said earlier, we do see there will be a short-term pain for next couple of months till such time all the vehicles are on road and all the lockdown restrictions are removed. But as far as our portfolio is concerned since we do not have many long haul routes, I feel we should be back on-road once again in next probably within a month or so.

**Nischint Chawathe:** Would you have a rough idea how many of your vehicles are currently on the road?

**K. Senthil Kumar:** That is very tough. But having said that, like we have been in touch with almost all our customers we have been in regular touch with customers. We have not at least in the last 10 days I would say around 50% to 60% of the customers have started applying vehicle all but in a very probably within a very restricted distance.

**V P Nandakumar:** I wish to add one more thing. Out of our Rs. 1,400 crores portfolio around Rs. 300 crores portfolio is two-wheelers.

**Moderator:** Thank you. The next question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

**Chirag Sureka:** I had couple of questions. You had said that very few percentage of customers are opted for moratorium. But what is the bounce rate that you see on the EMIs is one question? The second question which is there is, what is the value you are saying that lot more online transactions and gold prices have gone up. So, the value for customer going up?

**V P Nandakumar:** Yes, regarding gold loan yes, the gold value is going up along with that the LTV is going up. So currently the average LTV we have mentioned are taken by the customer is only 59% against the regulated cap of 75%. So, customers have used only 59% on an average. Regarding bounce rates, Senthil you can answer.

- K. Senthil Kumar:** Yes, the bounce rates obviously have it has gone up. On an overall portfolio the bounce rate is around 44% to 45% is what we have seen in the last couple of cycles. But I said earlier like our team has been in touch with the customers and we try to almost on once in two days basis and we try to recover this amount. And if you compare to pre-COVID yes, the bounce rate has gone up almost around 18% to 20% is what it has gone up.
- V P Nandakumar:** So, during lockdown period out of the billing our collections in the vehicle portfolio is around 45%.
- Chirag Sureka:** In gold also if you can just quantity it is let us say the average loan per customer what was it you gave it in LTV basis is also very useful but the average loan per customer has it gone up or it also tiding with the earlier question that somebody asked in terms of is it going to be volume growth or average loan per customer is going to go up? And that is the last question.
- V P Nandakumar:** So, there is not much difference. It remains somewhere around Rs. 50,000, Rs. 55,000.
- Moderator:** Thank you. The next question is from the line of Saptarshee Chatterjee from Centrum Broking. Please go ahead.
- Saptarshee Chatterjee:** Sir, my first question is in the online gold loan. So, when this year, maybe we can see lower footfalls in our branches. So, any initiatives we are taking to further increase our online gold loan percentage?
- VP Nandakumar:** Yes. So before lockdown, the percentage of online customers were around 45%. Now, it is 61%. What we have done, we have introduced facilities, apps to convert to this non-online gold loan to online gold loan. And many of these customers used to that. And because of that, even during the lockdown period itself, the online gold loan out of our total portfolio has gone up by 10%, 12%.
- So, it is going up, and the people are more accustomed to that, and they love it. So that really helps us in the interest collection. And whenever they have some money in their accounts, they transfer online. So that makes gold loan, yes, asset quality very high. And also, there is no much increase in the accrued interest even after 1.5 months lockdown period.
- Saptarshee Chatterjee:** Sir, in your sense, you expect majority of the disbursals this year will be through online mode?
- VP Nandakumar:** Yes, see, we are able to see an increase of 1% in our total portfolio moving to online. Yes, 1% per month is moving to online.
- Saptarshee Chatterjee:** 1% in terms of value?
- VP Nandakumar:** Yes. The 1% of the volume. Yes, probably towards the end of this year, 70% of our portfolio would be online.

**Saptarshee Chatterjee:** And if you can give some color on the OPEX side. What are the line items where we can rationalize OPEX further? And how much scope is there? If in qualitative basis, if you can give some color, high scope, low scope even further savings in OPEX?

**VP Nandakumar:** Yes. So, a year back or so, around 1, 1.5 years, I have indicated that we will bring down the security cost by Rs. 100 crores. We have achieved much more than that. So, this year also, you will see that continuing because of the technology-enabled storage system, which I have described in the past.

So that innovation has helped us. And in technology use, we have a subsidiary company, a technology company, which has employed around 200 technologists. So, with that help, we are evolving in the use of new-age technology like RPA, artificial intelligence, et cetera.

With that, we continue in reducing our costs. And also, we are planning some back-office consolidation of all our businesses and it is done in different places now. So, we plan to consolidate all these back-office functions over a period. So I feel like, this year through that way, use of technologies and back-office consolidation, et cetera, we may be able to bring a considerable saving.

Yes. Somewhere, my expectation is around this year, we may be able to achieve a cost reduction of around Rs. 20 crores, Rs. 30 crores, which is an ongoing process to bring down the costs.

So, we largely use for this new age technology. And also, we plan to have some cost rationalization, replacing the outsourced platform with our own platform, which we are making it ready, particularly in LOS, LMS and also the infrastructure management, et cetera, which can also bring down the cost.

So overall, we expect some Rs. 20 crores, Rs. 30 crores this year. Going forward, you will see the benefits of that. The OPEX, hopefully in another one year, in gold loan could be brought down by another 1%.

**Moderator:** Thank you. The next question is from the line of Shankar Narayanan from Deutsche Bank. Please go ahead.

**Shankar Narayanan:** Sir, I just wanted to ask. From the period April 1st till today that is May 14th, in the last one-and-a-half months how much disbursements have you made on a consolidated basis in crores and how much collections have you received in the same period?

**V P Nandakumar:** Gold approximately it will be around it is very high. It is around Rs. 20,000 crores. Because lot of what disbursements are happening around Rs. 1,700 crores I told you on a same day. Similarly, more or less an equal amount is coming back also. Because as these are done like an overdraft. So, the volumes are very high.

**Shankar Narayanan:** Okay and collections how much in crores?

- V P Nandakumar:** See we are able to collect almost all interest in gold loan. So that is why our approvals pre-COVID and today there is not much difference as far as gold loan is concerned.
- Moderator:** Thank you. The next question is from the line of Krishnan PS from India Advisory. Please go ahead.
- Krishnan PS:** I have two queries. I wanted to know if 1% COVID provisioning for microfinance is very conservative? And the second query is has Manappuram Finance given any corporate guarantees for Asirvad? And if so what is the quantum?
- V P Nandakumar:** So, your first was not question. It is only a complement, I understand. The second is the corporates guarantee norm. Manappuram Finance has not given any corporate guarantee to any of our subsidiaries. They borrow on their own. They are all AA rated companies by CRISIL. And they are in the priority sector. So, in that particular category they are rated perhaps the highest. So, they do not have any liquidity pressure being in the priority sector. They are able to raise their debt on their own.
- Moderator:** Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.
- Shweta Daptardar:** Sir, as far as Asirvad Microfinance is concerned, I see the employee expenses have gone up almost 50% Y-on-Y and 20% on a sequential basis. Sir, is it that we have ramped up collection infrastructure? How is the scenario on the collection activity because central meetings must not be happening? If you could throw more light there?
- VP Nandakumar:** Mr. Raja?
- Raja Vaidyanathan:** Yes. What is that you said, what has gone up, you said?
- Shweta Daptardar:** Employee costs.
- Raja Vaidyanathan:** No, the employee costs have gone up last year mainly because of number of branches. We have added another close to 100 branches last year. And that is one of the reasons the costs have also gone up sequentially. And if you look at the percentage, our OPEX is really the lowest in the industry. We are about less than 5%. The employee costs and admin costs come under that. So, we are much well within the industry. We are actually the industry leader in OPEX.
- On the collection, you are right, the whole industry, the collection of microfinance happens at the place of the borrowers, and that has been since March 24, as we are not able to do the collections. They have been prohibited from meeting people because most of the states have this Section 144. Nevertheless, what we have done is we have like Asirvad, for instance, using our 6,000 strong employees have touched base with 2.4 million customers telephonically, just to ascertain their intention to pay, their intention to take moratorium.

And we have also used this period to educate them on the digital collections, which in the industry is much less than even 1% industry-wise because everybody their collections are all cash basis. So, the center meetings are not happening anywhere because it cannot happen. Nevertheless, collections are happening because of the method of collection has changed. And from April 14 onwards after the first lockdown period, we have started educating people to deposits in our bank accounts directly. And now we have got our own app, where we they can also use this app to pay directly.

But center meetings will start only after the May 31 lockdown is lifted, when the normal practice of going to their place and collecting will happen.

**Shweta Daptardar:** So sir, till March 31, that is during the first lockdown, there have been bills collections?

**Raja Vaidyanathan:** Those collections are now treated as advanced because that is what RBI says anything after **(Inaudible 63:00)**. We have collected more than 80% to 85% of March collections already. So, but we are treating them as advance and offering moratoriums. So, when it opens, we will ask the borrowers whether they need the moratorium or adjust it against the immediate repayment.

**Shweta Daptardar:** Okay. And this Rs. 55 crores, I understand it is a pretty conservative number. So, does it cover all the forthcoming risk that you perceive in next 1 or 2 quarters, partially for microfinance, which is highly vulnerable to the current situation?

**Raja Vaidyanathan:** See, our provision is, again, one of the most potential and conservative. We have the standard provision already of about equivalent amount, about Rs. 50 crores or so, 1% on our assets, plus COVID provision of another Rs. 55 crores. So, we start off with about Rs. 105 crores of opening provision. Plus every time, during the year, whatever our net NPA incidentally is 0.

We have provided completely there is nothing to be provided for on the more than 90 days. But again, it is not there. We do not carry forward any NPA at all. So, we feel this is definitely adequate provision. Going forward, every quarter, anyway, we will review this. But I think we are standing pretty much quite strong to tackle this as we go forward.

**Shweta Daptardar:** Okay. Sir, secondly, on the gold loan business side, you mentioned 59% LTV. What is the price per gram?

**VP Nandakumar:** See, as far per the RBI norm, we take past 30 days trailing average of price published by Indian Gems and Jewelry Association. Yes. Currently, it is Rs. 2,345. Yes, that is the LTV.

**Shweta Daptardar:** Okay. Sir, secondly, you mentioned in your opening remarks, there could be redemptions on gold post lockdown. So, would that mean a dip in gold holdings and maybe quarter-on-quarter slightly slower growth on the gold loan AUM side?

**VP Nandakumar:** Yes, we expect some reduction in the collateral during the initial quarter, one or two quarters. There could be some reduction.

**Shweta Daptardar:** Okay. Sir, then lastly, you also made remark on the cost rationalization measures on the console book. But if I look at your vehicle finance and housing finance, where we have a chunky set of number of employees, do you see any correction out there?

**VP Nandakumar:** Yes. Well, I mentioned about the back office consolidation. So many employees in the back end could go for productive work in the field. So many employees will be moved to the value source from the back office.

**Shweta Daptardar:** Sir, the Rs. 20 crores, Rs. 30 crores of cost correction, which you mentioned in value terms by the end of this year, is it on the console business?

**VP Nandakumar:** Yes, it is on the console business through various means. One is the technology. We have our own various platforms developed by our own internal team, which we have tested and found very successful. We have outsourced many functions like infrastructure management by IBM. Then LOAs/LMS was through other agencies, et cetera. These are costly. So, when we compare that and also moving to cloud.

So, we also thought that could be a consolidated saving in that to the extent of Rs. 20 crores, Rs. 25 crores annually. This year, we may not be able to enjoy that full, but annually, that itself would bring a saving of around Rs. 20 crores, Rs. 25 crores. But this will be available from the second quarter onwards. That is our expectation. Yes, I mean, the second half year onwards at least third quarter onwards.

So, this year, it could be half, but other measures are also there like the back office consolidation in certain areas where people concentration are more and also more than that particularly using new-age technology. We are bringing down the headcount at the back end and moving them to the front end, which is the value source.

**Moderator:** Thank you. The next question is from the line of Dhaval Gada from DSP Investment Managers. Please go ahead.

**Dhaval Gada:** Two questions. First is on the OGL, given the sort of expectation that you have of further increasing the proportion by 1% per month. So, what is the kind of cost benefit that can come through in the gold business? And would you use this cost to improve the branding and advertisement activity, is one thought. So that is the first question.

The second question is on the vehicle bit. So, I am sorry for just asking it again. So, at the end of the year, we were at about Rs. 1,350-odd crores of portfolio. And you mentioned that about Rs. 300 crores of this Rs. 1,350 crores was 2-wheeler portfolio. So just wanted to understand what was the billing in the month of April? And how much was the eventual collection at the month of April? What was the billing in the month of May? And how much have we collected so far in month of May? Just to clarify, excluding moratorium and all other bits, how much is the actual sort of forward flow in the portfolio? Yes, those are my two questions.

**VP Nandakumar:**

Yes. OGL definitely should bring a lot of cost saving but it will be accrued only in future because we should have a minimal number of people in the branch. Let us say our average portfolio gold loan per branch is around Rs. 4.8 crores, nearly Rs. 5 crores now. So even if it grows to around Rs. 15 crores, we do not need any additional people. So in future, this is going to bring a lot of OPEX saving per branch. So that is the situation.

So why 1% of the people are moving, they understood how beneficial it is. It is that they can come and have a free storage of gold. So, they get a free storage because we do not charge anything for storage of gold. So, they can get a drawing power up to 75% of the LTV. So, they can draw at anytime from anywhere. Even in cities, we have started in a couple of cities, door delivery of gold loan. No one wanted to get a gold loan. We go there and do every appraisal everything and immediately we disburse this to them through online. So, their account will be credited.

So, they can handle from anywhere. So now today, our gold loan is, for them, 24 hours, 365 days operable from anywhere. So that is the reason why this is increasing. So, we do not do a very wide publicity, et cetera, because that is very costly. Rather, we plan to use the digital modes, new various social media, et cetera. That is a cost saving measure. At the same time, we will be able to reach out to the customer. So, our thrust will be more on cost savings.

The second is a question is about CV collection billing collection during April and May. What I can say during the lockdown itself out of our billing we were able to collect 45% of that. This was enabled through various digital payment options and as well as apps given to the customer which are very customer friendly.

If you want the exact details month wise, Senthil will give you.

**K. Senthil Kumar:**

In the month of April on a consolidated basis we could have a 55% collection. Of course, in May through half the month we have around 28% of our customers around 30% of our customers have paid. Hopefully we plan to close this around 60% collections. And this is excluding the customers who have paid who had opted for moratorium.

Apart from this we have around 10% of the customers come and paid us even though they have opted for moratorium. They have come around 10% of the customers have paid us the EMIs. And that way I think this has been possible more by as sir had mentioned like we will be more by online collections handling platform which we have launched in the month of March.

We have almost around 60% of our customers have logged into this online platform and the EMIs comes through this online platform. Apart from this we do also have the orange zones and the green zones where our people are able to travel and meet the customers and collect the EMIs.

And we do have other platforms like when you have this payment banks, we do have tie up with couple of payments banks through which the EMIs are deposited.

**Dhaval Gada:** So, if I understood it correctly while moratorium percentage is lower at this point of time but the actual delinquency, the people who are not NPA but who are delinquent is 50%, is that correct?

**K. Senthil Kumar:** Yes, it should be around 45%. You are absolutely right. It could be around 45%. But this moratorium is a continuous process. It is not a onetime solution which I gave. So though customers are opted earlier now customers are convinced that they should not go for. So, we keep having this.

**Dhaval Gada:** And just one last thing. On the MFI portfolio so sir, I understand you talked about non-gold businesses sort of growth rates moderating. But overall any thoughts of how we could strategize for the post lockdown period in terms of sort of managing exposures? Any strategy or any changes that you have made to ensure that we sort of manage risk in a more efficient way? Given that we have had a growth shock and there is a possibility of political intervention in terms of payment, et cetera. So, any thoughts around how we want to energize collection in this period?

**Management:** Yes. See the whole industry is waiting to see how the performance of the borrowers are going to be in collections after May 31. So, we have not disbursed in the last 2 months. None of them, none of the companies have disbursed in the last 2 months. It is only based on our physical interaction with them, now talking to them over telephone and all that. We are not able to assess their real situation.

So, after the June 1st, we will make an assessment. And the disbursement, which definitely starts slowly not as fast as we have envisaged earlier. And we will by the second quarter, I think we will be back to the normal rate of disbursement if the collection percentages keep increasing.

That is the strategy we have. Plus, on the risk mitigation measures as the Chairman had mentioned, we have moved to even before this crisis, we had moved to a district level risk portfolio capping. And we will now again based on this, we will make sure that we do not have an exposure of more than 0.5%, 0.75% in any district. And so, in Microfinance, it is always the losses are always localized. It does not spread far and wide. So, having a smaller percentage in district level going forward is the only answer.

The third is, of course, inculcating the digital collection and making them more aware, so that in future if such crisis come demonetization really opened the doors for the disbursement through digital and 100% disbursement. Asirvad is doing 100% bank disbursement only from August 17. So, we will move more toward the digital collection. These are the lessons, I think, will be going forward.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Abhishek Murarka for closing comments.

**Abhishek Murarka:** A big thank you to the management team Mr. Nandakumar and everybody else for allowing us to host the call.



*Manappuram Finance Limited*  
*May 14, 2020*

**Moderator:** Thank you. On behalf of IIFL Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.