



“Manappuram Finance Limited Q2 FY2018
Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Manappuram Finance Limited Q2 FY2018 Earnings conference call, hosted by Antique Stock Broking. We have with us today the management from Manappuram Finance represented by Mr. V.P. Nandakumar - MD & CEO, Mr. Kapil Krishnan – CFO and Mr. Raja Vaidyanathan - MD & CEO - Asirvad Microfinance 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. Digant Haria - Antique Stock Broking. Thank you and over to you Sir!

Digant Haria: Very good evening to all of you. Firstly, I would thank the management and all of you for joining this call and I will start this call by handing over to Mr. Kapil who can take you through the financial highlights and then Mr. Nandakumar and Mr. Raja can take you through the economy and how the businesses are shaping up. So, over to you Kapil!

Kapil Krishnan: Thank you Digant and welcome to all of you to Manappuram’s Q2 FY2018 conference call. For the quarter ended September 2017 our consolidated AUM stood at Rs.13723, which was an increase of 2.6% from the previous quarter. This arrests the three quarters of decline that we had post demonetization, which happened a year ago.

Our consolidated income from operations was Rs.831 Crores, consolidated profit after tax and minority interest was Rs.160 Crores compared with 155 Crores in Q1, which is an increase of 3.5% Q-on-Q. The standalone profit should at 170 Crores. This was down 9.4% Q-on-Q.

Our gold holdings worth 59.8 tonnes as at the quarter end, this is up marginally by 0.7% Q-on-Q. Total number of gold loan customers stood at 21.6 lakhs. The gold loan books stood at 10,761 crore which is up 0.3% Q-on-Q.

Auctions during the quarter were 200 Crores, weighted average LTV stood at 1801 was 65% of the current gold price. Interest accrued was Rs.273 that is 2.5% of the gold loan AUM. Gold loan disbursements during the quarter were 12,816 Crores.

The online gold loan book accounted for 17% of the total gold loan book compared to 12.4% in Q1 FY2018.

Asirvad Microfinance had a closing AUM of 1,965 Crores, which is a 7.5% increase Q-on-Q and 26% increase Y-on-Y. For the quarter, the company made a loss 11.56 Crores compared with 34 Crores loss in the previous quarter. The company made a provision for 38 Crores compared to 72

Crores in the previous quarter. We have consistently been following a policy of fully providing for all loans over 120 days and 60% of loans between 90 and 120 days.

This is above the RBI requirement to the extent of 27 Crores. Disbursements are also now back to pre-demonetization level and were 744 Crores during the quarter. All the disbursements are now being made in a non-cash manner. Asirvad had 13.8 lakh customers, 813 branches, and 4277 employees. They are present in 18 states and Union Territories and have for capital adequacy of 16.3%.

Home loans business have a total book of 326 Crores, which was up marginally Q-on-Q. They operate from 35 branches. The vehicles loan books stood at 419 Crores, which is up 22% Q-on-Q. They operate from 59 locations. Put together all the new businesses now account for 21.7% of the consolidated AUM.

Consolidated finance cost was 245.7 Crores, average cost of borrowing during the quarter declined by 59 basis points to 8.8%. This is down 129 basis points year-on-year and 230 points over the last two years. The marginal incremental cost of borrowing is 8.3% our long-term debt rating was upgraded to AA by CARE Ratings during the quarter.

Employee cost increased by 10% to 154.8 Crores the consolidated head count now should at 24500 there was a 5.6% increase in administrative cost to Rs.134 Crores, depreciation cost increased by 4.7% to 16.6 Crores. Provisions and write offs for the standalone entity stood at 7.4 Crores. The gross NPA was stable at 1.2% and losses due to thefts, spurious, gold, etc., was 9 basis points.

The company's consolidated networth was 3575 Crores. Book value per share was Rs.42.4. Interim dividend of Rs.0.5 was declared by the board. Capital adequacy was 28.8%. Consolidated borrowings stood at 10758 Crores. I will now request our Promoter and Managing Director Mr. Nandakumar to kindly share his views on our overall business.

V.P. Nandakumar:

Thank you Kapil. Thank you all for joining us today to discuss our Q2 results. I am happy to report that over the last quarter our performance has turned the corner after three quarters of no growth beginning from Q3 of FY2017 when demonetization happened. We are now reporting a modest quarter-on-quarter growth of 2.6% in consolidated AUM.

During the last concall in August to discuss our Q1 results you may recall that I have mentioned the economy was on weak ground with the unorganised sector still facing the after affects of demonetization leading weakness in demand. I have mentioned then that we are also beginning to see the signs of improvement.

Today as we review our Q2 results, I can say with some confidence that demand has indeed picked up and the near normal monsoon this year has also brightened the prospects. Our aggregate loan disbursements for the consolidated entity are up high 3.5% compared to the preceding quarter.

For consolidated profit this quarter was once again affected by loss reported in our microfinance subsidiary Asirvad on account higher provision towards the doubtful loans. At the same time, Asirvad loss was lower at 11.56 Crores compare to 34.2 Crores from the first quarter.

MFIs in India were badly affected by demonetization initially from disruption in availability of cash and then the more lasting impact of disruption to the cash economy; however, compared to the first quarter Asirvad has managed to recover substantial ground this quarter and curb its losses.

We are hopeful from third quarter onwards microfinance will be in the black. Moreover, as Kapil pointed out just as in the proceeding quarter we have continued with our policy of conservative accounting and the provision, Asirvad made is about 27 Crores over and above the amount we are required to provide as per the RBI norms. Our gold loan business that was affected by slowdown in the unorganised sector has now turned around with the AUM inching up to 10761 Crore compared to 10,738 Crores in the preceding Q1.

We also continue to a make good progress with our online gold loans, which is where the future of the gold loans lies and which now accounts for 17% of the gold loan books compared to 12.4% in the preceding quarter.

Another noteworthy development is that our average the borrowing costs has fallen by a further 59-BPS this quarter. It now stands that 8.82%. On a year-on-year basis, our borrowing cost has come down significantly by 129-BPS.

Our incremental cost of borrowing is that 8.3%. We expect further reduction in the borrowing cost on the coming quarter. We began diversifying our portfolio in 2014 in three years since our non-gold such as microfinance; home loans and commercial vehicle loans now contribute to 21.7% of our consolidated AUM. In particular, vehicle finance has grown by an impressive 22% over the first quarter as we are seeing good traction in this business.

Thank you. The floor is now opened for questions.

Moderator: Ladies and gentlemen we will now begin with the question and answer session. We will take the first question from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.

Anand Bhavnani: Good evening Sir. My first question is on microfinance division. Pre-provision operating profit last quarter was around 37.6 Crores in this quarter it has fallen to 25.5 Crores can you share the reasons

for the fallen pre-provision operating profit and if give a broad guidance on how do you see the microfinance over the next two quarters?

Raja Vaidyanathan: The pre-provision profit actually is the net of income de-recognition, income de-recognition is about 11.5 Crores what we do is we provide for make a provision the income on the provision is also removed from the net income That is the reason why 11.5 Crores is less otherwise this quarter income is also comparable to the last quarter. In fact it will be slightly higher. What is the second question you were asked?

Anand Bhavnani: Guidance on how do you see microfinance business is going forward?

Raja Vaidyanathan: As explained by Nandakumar and Kapil the market has definitely will become better and our static pool right we have lent close to 1900 Crores after the demonetization and collection efficiency on the 1900 Crores is close to 99%. So we are inching towards the normalcy. Earlier it was 99.5%, 99.6% now its 99% now. In another few months when the old loans prior to demonetization mature then I think we will be back to the original levels of vision.

Anand Bhavnani: Sir my interest was in knowing the AUM guidance for the three segments, housing, gold loans and microfinance?

Kapil Krishnan: You may have heard our previous calls. We do not give any forward guidance, but we indicate that over the next medium term that is I think at least the three year period we are expecting 20% in the consolidated AUM and that we feel will be achieved.

Moderator: Mr. Bhavnani may we request you to come back in the queue please.

Anand Bhavnani: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Parag Jariwala from White Oak Capital. Please go ahead.

Parag Jariwala: Thank you. Firstly on your gold loan business. This is the second quarter where the AUM is almost flat and if we compare from FY2017 and though marginally but we are down in the last six months. So what has been and what is your outlook on that business? Second question is on the CV business because quarter-on-quarter we have seen a very sharp jump, so in these two businesses if you can highlight what is happening?

V.P. Nandakumar: Gold loan as I mentioned in my opening remarks there was some degrowth for a few quarters after demonetization after that now we see some stability and we saw some growth even the marginal growth we have seen, so hereafter we feel like there are prospects of growth in gold loan. In CV yes

now the teams are ready, we have been doing this business for the last two years and the teams are ready. So the business shows a consistent growth and we see the potential to grow that business at this level.

Parag Jariwala: Thank you.

Moderator: Thank you. We will take the next question from the line of Manvardhan Ved from Laurel Capital. Please go ahead.

Manvardhan Ved: Good evening Sir. Congratulations on a good set of numbers. I wanted some clarification on the NPAs of each verticals both gross and net levels and also some colour on the home finance business as to both on the NPA front and the stagnation that we are seeing in the AUM in the home finance side?

Kapil Krishnan: Basically the gold loan had about 1.1%, commercial vehicle 1.9%, and the microfinance is 3.03%, and the housing finance is around 3%, gross NPA.

Manvardhan Ved: These are all gross NPAs?

Kapil Krishnan: Yes.

Manvardhan Ved: On a net Level?

V.P. Nandakumar: To your follow up question about the stagnation, there was some stagnation because there was a change in guard the business there, the CEO has moved on. The new team is a strong team in place now, so the initial stages of the new team they focus more on NPA collection, but now NPA is under control. Now the HFC is poised for growth.

Manvardhan Ved: So Sir the NPA level of 3% should we expect this to go down further in the coming quarters?

V.P. Nandakumar: You are right.

Manvardhan Ved: Thanks.

Moderator: Thank you. We take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. Sir we are talking about in three years 20% consolidated AUM growth so can you give some sense how this growth fits for gold as well as non-gold in terms of growth?

- V.P. Nandakumar:** Non-gold sometime will be more because our base is small and gold will be somewhere around 15% the consolidated growth is expected to be around 20% we maintain that even now.
- Deepak Poddar:** Understood. And in this quarter we had a 2.6% quarter-on-quarter increase growth so what was the gold loan growth?
- Kapil Krishnan:** It is flat actually in this quarter, 30 Crores growth.
- Deepak Poddar:** What exactly I wanted to understand more on the gold loan front now, so what exactly has happened because last three quarters I think we have been seeing the declining growth in gold loan and this quarter is kind of flattish so do you see that...?
- V.P. Nandakumar:** It was flattish so hopefully in the coming quarters we will grow.
- Deepak Poddar:** Because there is a huge gap between what we are saying in terms of 15% gold loan growth we are expecting and actually we are achieving kind of a negative and flat growth?
- V.P. Nandakumar:** Yes, see the last few quarters were abnormal quarters because of the demonetisation and so other issues connected with the rural economy drought etc., that phase is almost over. We saw some stability during last quarter and in the coming quarters, so the the three-year anticipated growth of 20% I hope it will be there.
- Deepak Poddar:** But are you basically more or less confident on 15% growth on the loan gold part?
- V.P. Nandakumar:** May not be this year but 15% during the next three years it is possible.
- Deepak Poddar:** Now if I look at your standalone P&L we have seen a dip in your profits in terms of I think its nearly a gold loan business so what exactly led to given the flat kind of AUM but still our profits are down by about 10% so is there any expenditure, which has come up which is one off?
- Kapil Krishnan:** No you may have noticed that there was an other income in Q1 of 19.7 Crores so that is not there in this quarter so that is the only reason.
- Deepak Poddar:** I think that is it from my side. Thank you.
- Moderator:** Thank you. We take the next question from the line of Sameer Dalal from Natvarlal and Sons and Stock Brokers. Please go ahead.
- Sameer Dalal:** I had a quick question regarding the Ashirvad Micro Finance business. This is a lot of joint lending that happened but the NPAs have risen. Now obviously the joint lending group also becomes large at

some extent for some of the repayments can you explain how, is it that the entire group is not paying what exactly is going on because there should be some amount of collections coming from some of the NPAs I mean some of the problems that were there especially now the demonetization is well over?

Raja Vaidyanathan: The joint liability group as you rightly said worked very well when all were merged and two of them default but what had happened after the demonetization is some of the groups none of them so there is no question of joint liability and some of the groups there were many of them paying and few of them not paying so what we have finally said is we have done a sort of restructuring on we have moved a good paying members to new centers and it was very difficult for us to make the paying members to pay for the non-paying members so there has been a lot of rationalization and the formation of the new formation centers so what we have now got is we have got clear many centers, which are paying fully back again and the default payers have been moved to centers where more or less it has become dormant and they will not be eligible for new loans or conversion of their loan. Now you are right still getting whoever wants to pay and they will be moved from these non-paying centers to paying centers but that is done on a case-to-case basis.

Sameer Dalal: But Sir, if this beats the whole purpose of the JLG if you can move from one group to another because eventually the JLG will have no standing because at the end of the day you are saying it is not impossible so I mean is this whole thing feeling is the micro finance business actually showing spurt signs of it failing as a group lending?

Kapil Krishnan: This joint liability group works well. In fact is that if there is some problem with one member alone and that member is unable to pay the other members will pay for that member but if most of them are unable to pay it is very difficult for these balance members to pay, so it is still a model which is working very well. It operates in a principal that if one of the members there is a problem in their house the other members come and pay but if there are many installments pending it will be difficult for the good members to pay. So it does not work well when there is a crisis across the industry, it does not work well but otherwise in normal circumstances it still works out of our total 1 lakh centers close to 90000-95000 centers will work very well on the JLG model.

Sameer Dalal: Can you also then just quantify off the people that have not paid say post demonetization how are those numbers reduced? Have you been able to make any sort of recoveries from the non-paying? Has that percentages come down and if you can give some guidance on what happening there?

Raja Vaidyanathan: Definitely if you look at Asirvad in December of 2016, we had something close to 420 Crores overdues, 420 Crores of that is complete, and is reduced by more than 50% now, so people have started paying since then and there are people who are paying with the lag, it is not actually they can pay it. There are people paying with two month lag and three month lag and they are collecting from

each bucket but having said that there is also a set of customers who have not paid for which we have made provision and that is a provision which has been made with, they never paid for last six months or seven months we never expect them to pay more and for such hard debts they made a solution, but otherwise people have continuously made and as I said whatever they lend since November they have paid their collection efficiency is more than 99%. So that certainly is becoming back to normal. The issues where there a political interferences in part of Karnataka or in UP or in Haryana and all that that has taken a toll. The provision is mainly on in places like Karnataka and UP and Haryana. Otherwise there is no big issue at all for us.

- Sameer Dalal:** This is last question, just a follow up you said 420 Crores was something that you were not able to collect because I do not have your presentation can you tell us what that number has come down to as of today and how much of that have you provided for?
- Raja Vaidyanathan:** As far December, which we said soon after the demonetization because people started defaulting and at that point of time the portfolio dipped to 420 Crores so now as we seek, we are now after all provisions of 126 Crores that is the total.
- Sameer Dalal:** After the provision, so still 126 Crores provisions could need to be made over the next few quarters.
- Raja Vaidyanathan:** 2.5% is only 49 Crores is more than 90 days.
- Sameer Dalal:** My question is how much more provisioning would be required that is what I where I am coming from?
- Raja Vaidyanathan:** We do not expect major provisioning by maximum about 15 to 20 Crores of provisioning will be required.
- Sameer Dalal:** So you are saying from the 126 you will be able to recover almost to 100?
- Raja Vaidyanathan:** Yes, definitely. We are closely monitoring on power management and the maximum was as Mr. Nandakumar said we should be back by this quarter.
- V.P. Nandakumar:** Also please understand that Asirvad has made a provision of 27 Crores of over and above as required by the RBI norms.
- Sameer Dalal:** Thank you. I will get back in queue. Thank you.
- Moderator:** We take the next question from the line of Ishan Agarwal from Erevna Capital. Please go ahead.

- Ishan Agarwal:** Thank you. My question relates to a structural change, are we seeing any structural change because looking at the growth of our gold loan business vis-à-vis other NBFC businesses after demonetization can we say that structurally competition is emerging for the gold loan business from other NBFC doing consumer durables financing or small ticket SME financing or small finance banks because gold loans do tend to be expensive as compared to the sources of finance. Is this a threat to the gold loan growth business of ours?
- V.P. Nandakumar:** No I do not think so. Our customers are from the bottom of the pyramid from informal segment, unorganized segment so these were the customers who are most affected because of the demonetisation. They did not have the currency to deal with etc., so that has affected their livelihood so much, so that is the reason for the sort of stagnation or some initial years some degrowth etc., it is not because of the competition that has come up in the market. We do not see much competition compared to the previous quarters. It is more or less in the same way and I told you what we expect is that three years our expectation is to grow the gold loan portfolio at a CAGR of around 15% to 20% that remains.
- Ishan Agarwal:** That growth can be expected from FY2019 onwards?
- V.P. Nandakumar:** Yes, from the current quarter onwards from the Q3 onwards.
- Ishan Agarwal:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Nirmalya Saha from EforEquity. Please go ahead.
- Nirmalya Saha:** Good evening Sir. Would you like to give up an update on the strategic stake sale buzz that was going on in the market quite sometime?
- V.P. Nandakumar:** We have denied that in the stock exchange.
- Nirmalya Saha:** Thank you. That is it.
- Moderator:** Thank you. We take the next question from the line of Yash Agarwal from Crest Capital. Please go ahead.
- Yash Agarwal:** Sir I have a question on your cost so in standalone basis your costs are increasing on quarter-on-quarter by 7% to 8% so where do you see this stabilizing the operating cost?
- V.P. Nandakumar:** See the operating cost because of degrowth in the portfolio, so it will come back in another three four quarters.

- Yash Agarwal:** No, I am saying Sir absolute amount they are growing not as a percentage?
- V.P. Nandakumar:** One reason was that the security cost has gone up in the last year we have seen some robbery taking place we have strengthened that. Now we are making all efforts to see that security cost which is hovering around 200 Crores annually is brought down to around 50 Crores in the coming quarters by new storing mechanism with the vendors like Godrej they have developed a cellular model for us, cellular storage. This will reduce the scope of burglary taking place in a branch within a time, most of this burglaries take place during day time so time is a critical factor, the cellular storage plan will take the time of robbery for a long time, which will reduce the scope of a robbery as such. With that the physical security now employed in our branches one or two persons during daytime or one person during nighttime will come down drastically. I believe that cost, which is around 200 Crores annually will get reduced to 50 Crores in another one or two quarters time.
- Yash Agarwal:** So on a quarterly basis I think your 50 Crores will reduce to about 10-12 Crores you are saying?
- V.P. Nandakumar:** You are right.
- Yash Agarwal:** And can we expect that by FY2019 start?
- V.P. Nandakumar:** You are right.
- Yash Agarwal:** Sir last question on Asirvad, how much of your AUM is new that your collection efficiency is 99% post January or something in calendar year 2017?
- Kapil Krishnan:** Post demonetization that is post December the disbursement post that are showing that figure that was mentioned.
- Yash Agarwal:** Yes but how much of the outstanding AUM is currently?
- Kapil Krishnan:** 425 Crores is the pre-demonetisation and 1640 Crore or something in post demonetization.
- Yash Agarwal:** The current portfolio at risk you said is about 125 Crores and you expect 20 Crores maximum hit on that?
- Kapil Krishnan:** Yes that is right.
- Yash Agarwal:** Thank you so much for answering my questions.
- Moderator:** Thank you. We take the next question from the line of Adesh Mehta from Ambit Capital. Please go ahead.

- Adesh Mehta:** Given that we have been mostly into short duration gold loans we were actually historically been very comfortable with short duration borrowings but given that we have now diversifying into longer duration loans like home loans, vehicle financing loans how do you think will your liability duration evolves going forward?
- Kapil Krishnan:** Even today among the banks we have term loans, we have got NCDs which is 25% of the liability mix, we just did a 200 Crore three-year NCD so in fact the average tenure is more than double on the liability side than the asset side. We are very favourably placed on that.
- Adesh Mehta:** Okay so what could be your average tenure in terms of liability mix?
- Kapil Krishnan:** Liability mix will be around 250 days.
- Adesh Mehta:** Okay, but do not you think that 250 days on an average so this is less than one year?
- Kapil Krishnan:** This is standalone entity.
- Adesh Mehta:** Okay right.
- Kapil Krishnan:** Where the only long term funding is the commercial vehicle and few of the loans we have.
- Adesh Mehta:** If we include the housing finance business?
- Kapil Krishnan:** Housing has the separate they take seven-year bank loans.
- Adesh Mehta:** Okay so there basically we have covered in terms of ALM it seems.
- Kapil Krishnan:** Yes.
- Adesh Mehta:** Sir for the housing finance business, how do you see the asset quality and growth panning out over the next couple of years?
- V.P. Nandakumar:** Now during this quarter the NPA reported is around 3% so by the year end the NPA will come down to around 2%.
- Adesh Mehta:** Okay and in terms of growth Sir what kind of growth we could be expecting?
- V.P. Nandakumar:** We expect a reasonable growth this year. We may end up with around 400-450 Crores. This is our expectation for the year but next year we are poised to show a good growth.

- Adesh Mehta:** Okay so do we have something like two or three-year plan or something, have we budgeted anything?
- V.P. Nandakumar:** Yes, we have budgeted reasonably a good growth for this business.
- Adesh Mehta:** Is it possible to quantify that Sir?
- Kapil Krishnan:** Yes, may be around 1000 Crores next two to three years plan to grow this business.
- Adesh Mehta:** Thank you. All the best.
- Moderator:** Thank you. We take the next question from the line of Parag Jariwala from White Oak Capital. Please go ahead.
- Parag Jariwala:** Thanks. I just have one follow up question. I understand that in the gold loan business you have been talking about some GST related problems or the unorganized market still not recovered fully etc., but if you look at the average loan ticket size I mean in, Q3 FY2017 we were at around 34600 since then it has steadily declined so I understand about acquiring new customers and etc., with the loans taken from the existing customer basis also come off steadily since quarter-after-quarter so your comments on this basically?
- V.P. Nandakumar:** This is also to because of the compliance, the new regulations compliance etc, so the per customer ticket size is somewhere around 50000-60000 it remains more or less the same.
- Parag Jariwala:** Okay so you are saying that basically the existing customers are also not borrowing as much they can?
- V.P. Nandakumar:** Customer borrows the same but the pledges for a customer increases per customer.
- Parag Jariwala:** You said the housing finance GNPA is around 3%?
- V.P. Nandakumar:** Yes.
- Parag Jariwala:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Kunal Shah from Edelweiss. Please go ahead.
- Kunal Shah:** Particularly on Asirvad Microfinance so what has been the total write off till date we had taken on this entire portfolio and what is the portfolio at risk and do we expect any further provisioning in the coming quarters?

- Raja Vaidyanathan:** We have written off 109 Crores so far. The balance provisioning made in the books is 58 Crores and we do not expect anything more than 15 to 20 Crores more for providing that is a very conservative number we are saying.
- Kunal Shah:** And the portfolio at risk would be how much as of now more be more than zero day if we have to look at it?
- Raja Vaidyanathan:** More than 90 days is about 49 Crores now.
- Kunal Shah:** Yes, and zero-day would be 126?
- Raja Vaidyanathan:** Yes.
- Kunal Shah:** Okay, so not more than 15-20 Crores is something that we have to expect?
- Raja Vaidyanathan:** Correct additional provision is not required.
- Kunal Shah:** Okay so then it could turn into?
- Raja Vaidyanathan:** As I said we have already provided much more than what is necessary.
- Kunal Shah:** And any recoveries out there we have seen?
- Raja Vaidyanathan:** Yes, while we have provided this we also expecting recovery in all this, as the portfolio matures and comes to the end of the portfolio maturity there will be collection because people would like to get a loan otherwise as per the current credit bureau they will not be eligible, so whichever portfolio is near maturity we expect collections also so that will be towards this end of this quarter and beginning of the next quarter.
- Kunal Shah:** Okay and write offs would be concentrated in which states particularly?
- Raja Vaidyanathan:** The major write offs is in Karnataka, major write off is in one state then it is in Haryana and UP, part in Tamil Nadu.
- Kunal Shah:** Overall in terms of gold loan it has almost pretty flat quarter-on-quarter so is it really in terms of demand, is there a push at the branch level in terms of growing this book because it has been long enough wherein we are seeing a subdued kind of a growth particularly on the gold loan side so how do we see it so what actually could revive the momentum out there be it in terms of the overall demand or may be, be it in terms of say the push at the various branch level?

- V.P. Nandakumar:** No it was because of two reasons. One the demand was lower the second the economy was not doing well. It led to a situation of higher auction because of both these degrowth was there. Now as I mentioned, we see signs of growth and I hope the growth will go to the normal level, which we were witnessing as in the past from now.
- Kunal Shah:** And how much was the auction this quarter?
- V.P. Nandakumar:** 200 Crores.
- Kunal Shah:** Sir this actually does not seem to be settling out I think in terms of the auction that is still continuing may be we have lowered LTV our collections also bit strengthened but somehow I think this trend in auction is still continuing every quarter so is it anyway wherein we could see that also getting arrested?
- V.P. Nandakumar:** See the auction was the result of the lackluster performance in the rural economy. Now onwards it will come down. This is what we expect.
- Kunal Shah:** Just lastly in terms of the mix between the business loan and the consumer loan within the gold loan?
- V.P. Nandakumar:** See if we divide that one-third goes in the agri sector and one-third is working capital for this micro businesses and one third for consumption this is the pattern.
- Kunal Shah:** Okay and largely auctions would be concentrated in which category?
- V.P. Nandakumar:** Across these.
- Kunal Shah:** Okay so nothing on SME?
- V.P. Nandakumar:** You are right.
- Kunal Shah:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Anand Bhavnani from Samiksha Capital: Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity Sir. Sir I just wanted to understand on the gold loan side, you mentioned demonetization as hurt rural economy and since the lack of growth in the AUM but Sir correct me where I am wrong but to my sense when the rural economy weakens, if they additional credit they have to come to us pledge their gold and then use that credit further agri sector or for their

small business or for their consumption so my sense you would be bit slightly less than that if economy goes back more people want to borrow money against gold where am I getting this wrong?

V.P. Nandakumar: Yes, this is the wrong impression about gold loan. The gold loan is not longer distress loan. So these are we use it as working capital in the rural economy. The requirement of working capital comes whenever the economy is fairing okay, and the economy activities gone down the demand naturally comes down, this is not good for the lending business. The lending business strives on when the economy is doing well, so compared to other lending for that matter any lending is dependent on the demand.

Anand Bhavnani: Okay, So Sir like good monsoon in small business also probably doing well after the economy settling, you mentioned 20% three year growth is possible when I asked in the previous set of questions, so this 20% growth is for the company as a whole?

V.P. Nandakumar: The consolidated AUM we expect a growth of 20% Y-o-Y.

Anand Bhavnani: For next two to three years is it?

V.P. Nandakumar: Right.

Anand Bhavnani: Thank you Sir.

Moderator: Thank you. We take the next question from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: Sir, I have some queries regarding opportunity size for the gold loan. Is it reducing since the advent of Jan Dhan Bank account, Jan and lowering of growth how many people would be interested in taking loan at the high rate of 23%-24%? Second question was about the second generation of your company, you founded the company long time back and who are the second generation, what role are they playing and are they interested in moving ahead the business? Thank you.

V.P. Nandakumar: See the Jan Dhan account and other things they did not reduce the scope for gold loan. The gold loan scope is there and you will see in the coming quarters the gold loan is back to what it had been. Regarding the second part of the question, yes, the second generation is already in this business. I am assuming on bottom role as they take sometime for them to come back to be in the leadership of businesses.

G Vivek: Who are they and what is their educational background and the roles they are playing currently?

- V.P. Nandakumar:** Daughter is a medical professional. She is in the business now. Two sons they are business graduates. They are also in the business.
- G Vivek:** Microfinance you mean to say that the worst is over and now since it will be back to profit and back to normal and how long will it take Sir?
- V.P. Nandakumar:** Yes, it is almost back to normal. See post demonetisation the collection rate as mentioned by Mr. Raja is back 99% it has to be 99.5% if I could say that it is completely back to normal, but it is almost nearing normalcy and soon we expect it will be normal. See the demonetisation is an issue which is such issues are coming very rarely so this demonetisation cannot be taken as a normal situation so it is very abnormal situation we have to live with it that and hopefully such situations will not arise atleast in the near to medium future.
- G Vivek:** Sir with the advent of Aadhar and this KYC and the high marks credit bureau what about the defaulting persons any primitive actions being taken at this time who have not defaulted and returning and any measures are left for us and are there credit record?
- Raja Vaidyanathan:** No, see in the total industry as such today after the demonetisation we have close to 50 lakh defaulters and as an industry as a whole they are very clear that even if they default one company no other company is lending to them so we want to make a bring in more discipline out of a close to six Crore borrowers 50 lakh people are now 12% are in this list and I am sure that more discipline will come into the market and we will find new borrowers, when we look at the bottom of the pyramid we are now more than 200 million people here and we have not even covered half the market. So I do not think demonetisation has really affected the business in a way it has brought more discipline in the market and that is the reason everybody is back to the normal collection efficiency.
- G Vivek:** And Aadhar penetration has it reached high level and which is helping on better collection Sir?
- Raja Vaidyanathan:** Aadhar penetration in the last nine months Aadhar penetration is 99% to 100% in Ashirvad and in industry also most of us are using first level as Aadhar.
- G Vivek:** And how beneficial is it Sir?
- Raja Vaidyanathan:** It is very beneficial because one is in the credit bureau that is the first line of KYC which is going so it is easy to find out whether we have a norm of two MFI where borrower cannot have a loans from two MFIs so this automatically enables us to find out that they borrowed from more than one MFI. It is very useful thing for us in this industry Aadhar is very useful.
- G Vivek:** Thank you.

- Moderator:** Ladies and gentlemen we will take the last question; we take the question from the line of Nishchint Chawathe from Kotak Securities. Please go ahead.
- Nishchint Chawathe:** Are you looking at any capital infusion in Asirvad?
- Kapil Krishnan:** Yes, the board has just approved initial capital contribution of up to 50 Crores.
- Nishchint Chawathe:** And just one final one was, your dividend guidance of Rs.2 per year stays, right?
- Kapil Krishnan:** Yes.
- Nishchint Chawathe:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Digant Haria from Antique Stock Broking for closing comments.
- Digant Haria:** Thank you everyone for joining this call. Thank you Kapil. Thank you Nandakumar Sir and thank you Raja for taking out time and addressing the investor queries. Have a very good evening all of you gentlemen.
- Kapil Krishnan:** Thank you investors. Thank you, Digant.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference, thank you for joining us. You may now disconnect your lines.