



“Manappuram Finance 1QFY17 Earnings  
Conference Call”  
August 09, 2016



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**Moderator:** Ladies and gentlemen, good day and welcome to the Manappuram Finance Q1 FY2017 Earnings Conference Call, hosted by Motilal Oswal Securities. As a reminder all participants' line are in the listen-only mode and there will be an opportunity for you to ask questions after the presentation. Should you need assistance during this conference call please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sunesh Khanna from Motilal Oswal Securities. Thank you and over to you Sir!

**Sunesh Khanna:** Good morning everyone, welcome to 1QFY2017 earnings call of Manappuram Finance to discuss the financial performance and address your queries. Today, we have with us Mr. Nandakumar, MD & CEO and Mr. Kapil Krishan, Group CFO. Now I would like to hand over the call to the management for the openings remarks. Over to you Sir!

**Kapil Krishan:** Thank you Sunesh. Ladies and gentlemen welcome to the Manappuram's Q1 FY2017 conference call. For the quarter ended June 2016 our consolidated AUM stood at Rs.13014 Crores an increase of 1581 Crores, that is 13.8% Q-o-Q and 28.8% Y-o-Y. Our consolidated income from operations was Rs.746.13 Crores compared to Rs 652.47 Crores of 14.4% increase Q-o-Q. The consolidated profit after tax and minority interest was Rs.160.34 Crores compared to 130.7 Crores in the previous quarter an increase of 22.75 Q-o-Q and 170.4% Y-o-Y. Our underlying gold holdings increased by 6.3% Q-o-Q to 63.3 tonnes. This is up 12.9% year-on-year. The total number of gold loan customer stood at 20.6 lakhs. There was an addition of 4 lakhs customer in the quarter, which is 8.1% increase Q-o-Q. These show that our underlying volume growth figures were very strong. The gold loan book stood at Rs 11,345 Crores up 18.3% Y-o-Y and 12.5% Q-o-Q.

Auction during the quarter were Rs.37 Crores. They were low due to better collections and they were also helped by the higher gold prices. Our average LTV stood at Rs.1792 or 65% of the current gold price. Gold loan disbursements continued to be strong during the quarter at Rs.13201 Crores compared to Rs. 10869 Crores in the previous quarter. Our interest accrued was Rs.338 Crores that is 3% of the gold loan AUM as compared to 5% year ago. This shows that we are now collecting a far large part of our interest due all the factors indicate strong and healthy underlying business fundamentals. As discussed earlier in the previous calls we have taken many steps to delink our business from gold prices by introducing shorter term product, emphasizing on regular interest collections and tighter income recognition norms. Our subsidiary Asirvad Microfinance had a closing AUM of Rs.1236.8 Crores which was 196% Y-o-Y and 24% Q-o-Q. They now have 7.6 lakh customers, 428 branches, 2,300 employees and had ROA of 4.5% in the quarter.

We are now present in 14 States/Union Territories compared to 4 states/Union Territories when we acquired the business in March last year. For the quarter the profit was Rs 12.9 Crores, 28% of the AUM is now from the new states it has entered. They have capital adequacy of 21.5% and is poised to continue to do good growth in the rest of the year. In recognition of this CRISIL has upgraded long-term rating of Ashirvad Microfinance to A+ which is the highest rating given to any MFI in the country. The home loans business had a total book of Rs 170.5 Crores. They now operate from 26 branches. We have capitalized the company to the extent of Rs Rs 100 Crores. The commercial vehicle book stood at Rs 168.4 Crores. They operate from 37 locations. These new businesses have now stabilized and are ready to scale up significantly in the current year.

We expect our various new business to contribute atleast 25% of total AUM by FY 2018. Our insurance broking business has also commenced commercial operations and will contribute to fee income in the current year. Consolidated financing cost increased by 12% during the quarter. Our average borrowing cost declined by 10 basis points to 10.35% on the sequential basis. This cost is down 126 basis points year-on-year and 225 basis points compared to two years ago. In recognition of the improved financial position both CRISIL and ICRA upgraded the long-term rating of Manappuram to AA- in this quarter. This should help us to further reduce the cost of funds and will also improve the availability of funds to us. Our employee cost increased by 8.2% to 120.6 Crores. The total consolidated head count now stood at 19372. There was a marginal 3% increase in administrative cost. The overall opex to AUM declined to 7.3% from 7.7% in the previous quarter.

The overall number of branches remains the same at 3293. Provisions and write offs for the standalone entity during the quarter was Rs 13.4 Crores. We have now moved to 90 day NPA recognition compared to 120 days in Q4. This is a good two years ahead of the RBI wants us to do. Despite that our gross NPAs were well below at 1% at 0.8%. We have also moved to providing for standard assets at 40 basis points now instead of the 35 basis points that RBI requires us to make for this year.

Loss of assets due to thefts, spurious gold etc., was stable at 10 basis points. This shows the robustness of our internal risk management system. The company's consolidated net worth stood at Rs 2,918 Crores; book value per share was 34.7. Interim dividend was declared by the Board of Rs 0.5 per share s. This is an 11% increase from the earlier payouts. Capital adequacy was healthy at 22.3%, total borrowings stood at Rs 11,078 crores, I will now request our Promoter and Managing Director, Mr. Nandakumar to share his views on our overall business.

**V.P. Nandakumar:** Thank you Kapil. Thank you all for joining us today to discuss our Q1 results. I will begin with a brief preference to the recently announced guidelines for on-tap licensing for a

universal bank in the private sector. There is no doubt the guidelines are quite favourable to an NBFCs like ours, perhaps the only point where we still have a significant work to do is about the requirement to comply with priority sector lending loans when gold loans continue to be excluded. Otherwise I would say it is very positive for us. In our last concall in May, we had touched upon how the forecast of a normal monsoon, would likely have a positive impact on the economy and on our performance. Today, we know for sure that this year's rainfall is normal unlike the previous two years.

There is reasonable expectation that the distress in the rural economy following two successive years of poor rainfall will ease and this is the reason for optimism going forward. In the last concall, I have touched upon how gold prices have made remarkable comeback this year after crashing to five year low in December 2015. Since then the surprise outcome of the Brexit vote announced on June 24, has further reinforced gold's status as the best option for risk-averse investors in uncertain times. While we continue to discuss gold price do keep in mind that we are less vulnerable to gold price and less dependent on gold loans for business growth. To recapitulate our new business model, emphasizes short-term gold loans. Accordingly, all the incremental gold loans are in the short-term bucket of three months duration.

We are also laying emphasis on regular payment of interest by our customers to mitigate the risk of fall in gold price and we have also tightened our NPA recognition norms to 90 days well ahead of RBI requirements in this regard. Thanks to these moves we have become relatively immune to losses from future corrections in gold price. At the same time there is no denying that a scenario of increasing gold prices helps in setting up a favorable environment for growth. Our gold loan disbursements are up by 20% during the quarter at Rs 13,200 Crores. Our gold holding has also increased by 6.3% quarter-on-quarter to 63.3 tonnes. We have added 4 lakhs new customers. The total number of live gold loan customers now stands at 20.63 lakhs up by 6% over the last quarter, while the consolidated total number live customers is at 28.27 lakh.

The other effort I would like to touch upon is our success in building up the share of non-gold business in our portfolio. As a part of a larger derisking pattern our microfinance subsidiary Asirvad has put in another quarter of good performance. It reported an AUM of Rs.1,254 Crores nearly 200% more than the level reported in Q1 of last fiscal and 24% increase over the March quarter. Asirvad has improved its credit rating to long-term rating of A+ from CRISIL. This is the highest rating assigned to any MFI company in India. In line with their improved ratings, Asirvad's average costs of funds have come down by 130 basis points over the last year.. We acquired Asirvad in February 2015 with an AUM was less than Rs.300 Crores then. Besides microfinance, our home loan business and commercial vehicle finance now contribute to about Rs 170 Crores each. That is total of

nearly 340 Crores. At the end of last March quarter home loan and commercial vehicle loan contributed about Rs 260 Crores. Importantly both these businesses are well positioned to scale up. As a percentage of total assets all our new businesses together constitute 11% of our consolidated AUM. Our target is to reach 25% by 2018. Thank you. The floor is open for your questions now.

**Moderator:** Thank you very much. We have the first question from the line of Hardik Chheda from Lark Consultancy Private Limited. Please go ahead.

**Hardik Chheda:** Sir, I would like to know what is the outlook on the NPA by the end of the year where do you see NPA go. Right now you said it is at 0.8%. Where do you see it going by the end of the year?

**V.P. Nandakumar:** The NPA's we are hopeful of maintaining at this level. There may not be much increase from the current level..

**Kapil Krishan:** You see since our gold loan business is fully collateralized, we can sell the collateral whenever there is a default. So that is why NPA levels are so low and that is what differentiates us from the rest of the NBFC sector right now and we have already moved to 90 day NPA recognition that shows we do not have any NPA problem.

**V.P. Nandakumar:** In the gold business also we do not expect the NPA to go up from current percentage level.

**Hardik Chheda:** Thanks a lot. That is all from me Sir.

**Moderator:** Thank you. The next question is from the line of Kunal Shah of Edelweiss Securities. Please go ahead.

**Kunal Shah:** Congratulations on good set of numbers. So on the gold loan side obviously on a year-on-year may because of base adjustments there is normalized growth, but when we look at quarter-on-quarter the growth has been quite strong, so may be 12% to 13% kind of growth so do we expect this run rate to continue because any which way today also when we look at AUM per gram that is 1790, considering that we have 63 tonnes of gold. So do we anticipate a similar kind of run rate to continue and the overall growth in gold loan AUM could be much higher by the end of this fiscal?

**V.P. Nandakumar:** Our growth expectation in gold loan annualized is around at 20% which would be comfortably achieved.

**Kunal Shah:** Yes that is from 10000 we are already at 11300 so?

- V.P. Nandakumar:** What we are targeting for the next five years an annualized to growth at 20% year-on-year so that will be achieved.
- Kunal Shah:** I think may be so these numbers and auctions have been much lower, but is there any extraordinary on the interest income this particular quarter or this is average of yield?
- V.P. Nandakumar:** There is no extraordinary income. See our average LTV is currently around 65%. Another thing, we have moved to a short-term three month product and monthly interest collection has gone up. Accrued Interest is around 3% now. So because of all these the net interest margin has improved. We do not foresee any potential auction loss also in the near future. So that is the reason, there is no extraordinary income otherwise.
- Kunal Shah:** So, particularly looking at yield so yield are somewhere around when I calculated that comes to somewhere around 25% odd so I think is this the yield which we will keep on generating because that seems to be slightly on a higher side. So I just want to ask were there any interest income overdue which have been booked in this particular quarter?
- V.P. Nandakumar:** It is not because of interest overdue our contractual rate is around 22.5% because of the compounding effect there on yes the yield is around 25% which will be maintained.
- Kunal Shah:** How many of loans would be three months and six months percentage?
- Kapil Krishan:** Yes, so all incremental loans are for three months so that is one more risk mitigant.
- Kunal Shah:** All incremental?
- Kapil Krishan:** Yes so that is one more risk mitigation step we have taken because as you know the gold prices have moved up a bit, so to further delink from gold price we have shifted completely to three month product and on the yields, also the yield is almost similar to what it was in Q1, it was 24.9 and Q4 was 24.7.
- Kunal Shah:** May be so that is because of three months loan contributing a higher side of so I think may be incremental disbursements happening over there so that is what leading to this?
- Kapil Krishan:** Yes.
- Kunal Shah:** Okay and this would largely be repeat customers, how would this be?
- Kapil Krishan:** Yes, so 50% of loans are rolled over on the same day and further 40% are existing customers and 10% comes from new customers.

- Kunal Shah:** Only 10% comes from new customers?
- Kapil Krishan:** Yes, so these are perpetual loans, though it is a three month product it just gets rolled over, all we are saying is settle the interest and reset the LTV every three months.
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- Kunal Shah:** So the NPA recognition would be on three months plus three months, so it would be six months from the date of disbursement.
- Kapil Krishan:** That is right.
- Kunal Shah:** One last question in terms of ROAs for the various other businesses so when we look at, so we have given the yield in the presentation, but how would the overall ROAs be say the MFI as well as housing and the LCVs?
- Kapil Krishan:** Yes so as I mentioned earlier in the call, Asirvad has got 4.5% ROA and home finance and commercial vehicle are at just a marginal level right now, we will start contributing more in the next year.
- Kunal Shah:** Okay so may be that entire scale up has not happened, so once that scale up happens we will see the benefit of that coming up, so in terms of profitability how do we look at it at this particular segments in terms of 25% should be the AUM, but if we have to look at in terms of profitability how much can say the ex-gold contribute?
- Kapil Krishan:** The largest segment will be the microfinance and they have got 4.5% ROA, so overall ROA will be at the similar level.
- Kunal Shah:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Digant Haria of Antique Stock Broking. Please go ahead.
- Digant Haria:** Congratulations, the best ever quarter after, you know, in the last so many quarters. I had three questions, one is you mentioned that all incremental loans are three months so have we stopped the 6 and the 12 month product because I remember we used to do a 12 month product at 65% LTVs?
- Kapil Krishan:** Yes, in view of the rising gold price we have shifted to only three month product.

**Digant Haria:** Okay, got it, so that is one. Number two is that we have seen quite a good growth in gold loans and I know as the previous participant mentioned that we have already done 13% loan book growth for the year, so what has changed at the branches, I understand that the MD said that expectation of a good monsoon is probably responsible for this, but at the branch level are we changing our marketing, are we becoming a little more aggressive or things as usual?

**V.P. Nandakumar:** Yes, see we have recently introduced a fintech product called online gold loan, where the customer can place his gold in one of the branches and avail loan from anywhere anytime, 24\*7(24 hours a day, 365 days in year), so this is attracting large number of customers and gold loan is slowly moving from a kind of a distressed product to a lifestyle product. This is helping us record an improved sale. Another thing is that because of the emphasis on monthly collections the customers are also finding the gold loan more affordable, so the comfort level for the customer has improved, so this is helping us in improving our sales through our network.

**Digant Haria:** Alright and anything on the employee incentive front like are we giving more incentives for our branch employees to get new customers or something or that is the part of the ongoing business process?

**V.P. Nandakumar:** Yes we had a program in the past, it is being continued, they are motivated of course through some other incentives.

**Kapil Krishan:** So the incentives are structured to focus on growth in the gold collateral and the number of customers, the employees are sensitized that they have to show the volume growth, not just the AUM growth.

**Digant Haria:** Alright and my last question is on the operating cost, so our operating costs have more or less remained steady despite quite robust growth in our AUMs. I believe that in the standalone business you also have these new businesses, which is the LAP and the vehicle finance, so your cost to income have come down from 66% in last year to 44% this year, so do we expect that these costs should stabilize here or we expect further operating leverage because our branches are underutilized and growth will lead to operating leverage?

**V. P Nandakumar:** It is a good question. It will come down, see in the new business it is yet to come down because it is in the beginning stage, so it will come down drastically, even now it has come down, so the branch number in the standalone business is remaining constant, we are growing our AUM steadily, this will increase our average AUM per branch, so gradually quarter-on-quarter you will see a reduction, once the new businesses begin blossoming, I hope in another five years our opex will be at a level of below 5% in the consolidated book.

- Kapil Krishan:** Digant, one more innovation that is increasingly contributing to lower operating expenses is security charges which we had mentioned a few quarters earlier, security charges have come down by about Rs.5 Crores because now we are using technology as a surveillance means.
- Digant Haria:** Is 40% and a number which we should look at like most of that NBFCs or it could probably be somewhere lower by say next year?
- Kapil Krishan:** I think we have spoken about the opex to AUM.
- Digant Haria:** That is 5%, okay alright, thank you so much.
- Moderator:** Thank you. We have next question from the line of Hiren Dasani of Goldman Sachs. Please go ahead.
- Hiren Dasani:** Congratulations. Just I am referring to slide 33 of your presentation which talks about the different tenures of the loans and the LTVs and the interest rate, so is my understanding correct the rate of interest remains constant irrespective of whether I take a 3 months loan or a 6 months loan or a 12 months loan?
- V. P Nandakumar:** For the three months loan, the rate of interest is slightly higher being a short term loan product so it will pinch the customers much because of the slightly higher rate of interest.
- Hiren Dasani:** Okay so what you are showing here is more of illustrative thing, but in reality the actual interest rate is higher for the shorter tenure loan?
- V. P Nandakumar:** Correct.
- Hiren Dasani:** The communication to the customer is in terms of yield or in terms of I mean, what is the actual amount he has to pay. Does he know the percentage yield at all?
- V. P Nandakumar:** As per the fair practices code by the regulator we have to disclose all these details to the customer in the vernacular language, which is being done.
- Hiren Dasani:** Sir just curious and I mean if this product is so good then why are other gold finance companies are not really embracing the short term loans in a much more vigorous manner?
- V. P Nandakumar:** This question is very difficult to be answered, because we feel like this is good and it is for you people to compare with the competition, our results with the competition.

- Hiren Dasani:** But the LTVs you are very clear that you will not give more than 60% if it is 12 month or that is also illustrative.
- V. P Nandakumar:** Yes.
- Hiren Dasani:** Okay and the interest recognition in your P&L happens on an accrual basis right over a three months period or 12 months periods whatever it is?
- Kapil Krishan:** Yes, if the receivable is over the gold price we do not take into account that income so it is mark-to-market every quarter.
- V.P. Nandakumar:** Also we take the realizable value at the gold price not at the market price. We may be able to realize 10% or 12% lower than that. We take that into account.
- Hiren Dasani:** So effectively the customer is willing to pay higher interest rate for the shorter tenure because he is getting a higher LTV?
- V. P Nandakumar:** I mentioned about our average LTV. It is around 65%. Incrementally our lending is in three months only, so even for the short-term the LTV would be hovering around 65% that is why we are able to maintain it at 65%. One of the comforts for the customer is one is technology. Now we are getting around 5,000 to 6,000 online payments everyday so that means the customer has the comfort for servicing the loan and also for paying monthly interest he need not come to the office, he can remit that using his mobile even at midnight whenever it is comfortable to him, so what we do at our branch level is calling the meetings of these customers and explaining to them how conveniently this technology can be used and this is doing very good for us.
- Hiren Dasani:** Sorry if I am understanding right are you asking for a monthly repayment or are you still asking for bullet payment?
- V. P Nandakumar:** We incentivise the customers if they pay interest at monthly intervals, we give them some rebate.
- Hiren Dasani:** Okay irrespective of the tenure of the loan?
- V. P Nandakumar:** Incrementally all the loans are of three months, so over a period of time we want to completely switch over to three month loan. Actually it is not three month loan, in gold loan he can continue for as long as he wants, only thing we are insisting is that the customer pay interest at monthly rate or if we cannot pay it monthly rate at least pay at quarterly rate and then reset this loan at the LTV prevailing on that day, so this is comfortable to the customer. If the marginalized customers are allowed to pay without asking after one year, one and a

half years what would happen is that the absolute amount of interest will be four times or five times of the three months, which makes it more unaffordable for the customer. Whereas in the three month loan, it is affordable for the customer as the absolute amount is one fifth of that.

**Hiren Dasani:** Sure and lastly if let us say for some reason gold prices fall then the roll over percentages can be much lower right because effectively it is a same three month?

**V. P Nandakumar:** Need not because the culture of interest payment is brought in, the technology also is affordable to the customer, he can sit at home and remit even on Sunday, or so that culture is instilled amongst customers, so if the customer is servicing the interest monthly even if the prices fall he will come and redeem or reset the loan. This is our experience.

**Hiren Dasani:** Sir very last thing earlier I think in some other question you or Mr. Kapil mentioned that 50% is rollover, 40% is existing customer and 10% new customers, what is the difference between roll over and existing customers.

**Kapil Krishan:** So rollover means same day roll over, existing customer is when he comes back after a short gap.

**Hiren Dasani:** So he repays and after maybe 5, 10 days he comes back for another loan?

**Kapil Krishan:** That is right.

**Hiren Dasani:** Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Anand Jhavar of JM Financial. Please go ahead.

**Anand Jhavar:** Congratulations for a fantastic set of results. Most of my questions have been answered, just wanted to get one sense of you mentioned 7% quarter-on-quarter growth in the customer base itself, now that itself is eye popping for many reasons because I have not seen such quarter-on-quarter increase in the customer base, so how much of new customers would you think will be able to add one? Secondly, like you said technology is increasingly playing a part of gold loan business how much of these new customers are because of technology, if you have any percentage?

**V. P Nandakumar:** So our intent is to increase the customer base by 2% every month, so we hope that around 20% customer increase per annum could be achieved.

**Anand Jhavar:** Right and when you think, how much of this would you associate this to the technology as you said it is more of a lifestyle product now than a distressed product as early if any?

**V. P Nandakumar:** We get around 4000 to 5000 online transactions every day now, and this is on the rise. It is not only on the rise, one thing what we do is to simplify the procedures and we plan, we intend to go digital in another six month's time, all these will help in even doing the documentation sitting at home, etc., etc., so this is found to be very much favorable with the customer that is the reason why the online transactions are on the rise.

**Anand Jhavar:** My last question is it is more macro like if I were to see the AUM of gold loan right now for Manappuram is 13000 Crores and if I were to add overall the industry AUM considering it could be around 60000 Crores give or take some percentage, how much do you think overall, how much of this is organized and how much is unorganized, I mean 60000 is the organised so my question is basically how much do you think will be easier for you from the organized to capture the unorganized segment?

**V. P Nandakumar:** So the estimates are that the organized sector is supposed to be around 900 tonnes and while there is no specific market survey of the unorganized segment there are estimates that it is four times larger and with all the government initiatives on Jan Dhan Yojana and financial inclusion I think most of the emphasis is on how to get business out of the money lenders to the organized sector and that is why the NBFC gold loan business will come into play.

**Anand Jhavar:** Just one last question, so if the unorganized is four times as large as the organized and we are incrementally getting new customers who are not even part of the unorganized sector, how much of this is the growth is coming from the unorganized sector to organized versus new sector itself if you know what I mean?

**V. P Nandakumar:** It is estimated to be around 50:50, 50 from the unorganized sector and 50 from new customer base.

**Anand Jhavar:** One point which I think earlier somebody had asked that your income grew dramatically versus the cost, so if I were to put it out on a ballpark for every Rs.10 that you earn, the cost was around Rs.1.5 to Rs.2, so that is obviously a lot of operating leverage kicking in and you also mentioned earlier that you want to achieve that 5% opex. Right now I think it is 7.3%. So incrementally that is the trend of the operating leverage you want to continue.

**Kapil Krishan:** Yes. That is right.

**Anand Jhavar:** Alright. Thank you so much.

- Moderator:** Thank you. We have the next question from the line of Rahul Ranade of Goldman Sachs. Please go ahead.
- Rahul Ranade:** Just the clarification. So the 0.8% GNPA ratio that we are reporting essentially means that that is the amount outstanding which has now been 90 days over and above the three month period that is in the contract right?
- Kapil Krishan:** That is right.
- Rahul Ranade:** This basically is for those who have not repaid the principal even if they have paid the interest during the amount of contract in month one and month two?
- Kapil Krishan:** This is the principal, which has not been closed.
- Rahul Ranade:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ashwin Balasubramanian of HSBC Asset Management. Please go ahead.
- A Balasubramanian:** I had a couple of basic questions. Typically when you kind of disburse a loan, do you also kind of look at the income of the customer or is it like purely the collateral which we look at, so a related question is would the yields then depend only on the LTV or is there any other factor which should go into the sort of yields which will be charging in the custom?
- V. P Nandakumar:** In the collateral based lending like gold loan we do not take into account of his cash flow specifically collateral based lending. In other modes of purchase funding like home finance, CV etc., we look into is income or potential income. Regarding gold loan, now we have moved to a three month product and interest is not based on LTV. It is the uniform.
- A Balasubramanian:** Which would be 22.5%?
- V. P Nandakumar:** It is the contracted rate.
- A Balasubramanian:** My second question again little bit basic probably, but once a customer becomes delinquent what is the time period which you give to the customer before you actually auction the gold and also related question is once you have given the time period and let us say he still cleared up do you actually wait till gold prices are favorable and then you auction or irrespective of the gold price being favorable or not you sort of decide to auction at the time of when it becomes delinquent?

- V. P Nandakumar:** One thing I tell will you at the very beginning, now because of the increased collection, improved collection etc., items coming for auction have come down to around 1% of the disbursement, which is lowest in the history of gold loan NBFCs. The second thing, the auction process starts immediately after the expiry of the loan, but there are several things to be done like sending notices to the customer and wait for the customer and publishing the data of these in the newspaper, vernacular as well as English newspaper, then appointing auctioneers then getting back the acknowledgement due, etc. After taking these steps, they come and sometimes redeem the loan otherwise they are pay interest up to date and reset the loan at new LTV, this is being done. So with valid customers, we follow-up personally, the branch manager either calls him or goes to meet him and persuade him to do it like this. Because of the short term nature, the absolute amount of interest he needs to bring in is one-fourth of if he asked for after one year etc., so for the customer also finds it is more affordable. He comes and redeems. So this is the process, so after all these processes like publishing in the newspaper, sending notices, then appointing registered auctioneers etc., we conduct auction. So whatever is due to us we take it and whatever is surplus in auction if at all, it is it will be immediately sent to the customers by either it is transferred to his SB account or we send through registered account payee draft or cheque in a fortnight's time. Anything surplus will be maintained in an escrow account with a commercial bank. If he comes even after one year he gets the details about auction etc, etc but not only that he is intimated about this auction detail immediately after the auction is concluded this is the process.
- A Balasubramanian:** Typically how long the entire process takes?
- V. P Nandakumar:** The auction may take another 90 days from the date of expiry of the loan then the other procedure is fast auction procedure may be completed another 45 days.
- A Balasubramanian:** This will happen after it becomes NPA?
- V. P Nandakumar:** We have moved to a 90 day provisioning norm, so the auction process is is happening within that 90 days. Fast auction procedure happens after that because when it is not an NPA, the money has come to us. The fast auction is surplus whatever auctions are surplus being repaid to the pawner himself.
- A Balasubramanian:** So basically the process initiated at the first day?
- V. P Nandakumar:** It will be zero NPA procedure.

**A Balasubramanian:** Also you were saying that you are incentivizing your customers to pay interest on a monthly basis instead of bullet payment. So what is its current proportion of such customers who are paying interest on a monthly kind of basis?

**Kapil Krishan:** That is somewhere around 40%.

**A Balasubramanian:** Just one last question. In terms of the yields and microfinance segment how much would that be?

**V. P Nandakumar:** It is around 24%, so the borrowing cost there is around 14%.

**A Balasubramanian:** Would that be an overlap in terms of customer segment in the MFI and the gold loan segment or it would be totally two different segments?

**V. P Nandakumar:** Gold loan average ticket size is around Rs.35000, so he needs to have some 20 grams of gold with us. The microfinance customers are from the bottom of the pyramid. They may not have gold worth of around Rs.50000, Rs.60000 with him. So the class is different even though the class differentiation is thin, but it is different.

**A Balasubramanian:** Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Pratik Aggrawal of ASK Investments. Please go ahead.

**Pratik Aggrawal:** I just wanted to get a sense that in this business, what could be the leverage that you would be comfortable with in various entities microfinance and gold?

**Kapil Krishan:** We will be comfortable at around 4.5 to 5 times leverage in both the businesses.

**Pratik Aggrawal:** But what prevents you from going higher?

**Kapil Krishan:** That is the level the rating agencies are also comfortable with.

**Pratik Aggrawal:** Thanks.

**Moderator:** Thank you. We have the next question from the line of Yash Jhaveri of Alder Capital. Please go ahead.

**Hemant Patel:** This is Hemant Patel here. Congratulations on a great set of numbers. I just had a basic question on consumer preference. I am trying to understand this that if one were to classify consumer preference in three buckets the first being financial wherein he is looking at LTVs

and interest rates. The second one being operational more like speed of disbursement and third one being something software issues or the brand related issues and relationships. How would you actually rate this I mean consumers more interested in one versus the other if you can actually rank them for me?

**V. P Nandakumar:** Our numbers indicate that the customer's preference. One, because of the processes are made simple, the prepayments can be made online, then because of the emphasis on EMI or monthly payment, so that also is possible. So LTV is adequate, all these make us actually 24x7 service organizations like an ATM.

**Hemant Patel:** So let me try asking in another way I mean we do have a number of questions asked on in terms of the cost of lending on the gold loan portfolio and we are quite fairly competitive at the interest rate obviously far more competitive than the unorganized markets that they are. But do customers really if you were to actually bring down the interest rates by two notches like 2% points and increase the loan to value. Would you see a greater customer acquisition?

**V. P Nandakumar:** Yes, possible, but see the case of credit card. Credit card borrowing being a short term actually the consumers is not really bothered about the rate of interest. In the case of long-term borrowing like home loans even 25-basis points make a big difference. Here for a, commodity based lending generally of a short-term nature the 1% or 2% of interest does not make a big difference for the customer. What is more important is easy transactions and availability when he comes for redemption. We are working for almost 48 hours a week. Because of that we are making ourselves available for redemption also. For servicing the loan, he need not come if he uses this technology online payment system. Many of the customers at the end of the week they want to redeem or they come for redemption at around 6 o'clock on Saturdays so these are all made possible, these may be the success of the gold loan companies. You must have seen several companies are attempted to do this, but only few companies were successful because the nuances of this business should be known to the company.

**Hemant Patel:** And one more thing about competitive position in the market, when you say new consumers or new customers who are coming in for the gold loan portfolio. Is there some sort of survey or is there some sort of understanding or insight that you have as to where are these new consumer base coming in from. Are they coming in from largely other gold loan companies or are they basically coming in as new users to the base?

**V. P Nandakumar:** Mainly two, three gold loan NBFCs are operating at a national level. There were so many others in NBFCs earlier and they were giving gold loan finance then many of them have got impacted. The banks also especially new generation banks were active a couple of years

back, you have seen that also have not done that well so they also have receded. Then comes annual import of world to the country around two-third of that is going to the rural markets, all these are converted into jewelry. The jewelry is on the increase, the competition is moderate, so these are the good aspects of gold loan business as we see it.

**Hemant Patel:** Thank you Sir. That was useful and one final question if I may this is pertaining to some media reports which actually went out saying that we have an inorganic strategy planned out for the MFI segment to diversify our risk on an overall basis. Can you just elude on what your strategies are out here?

**V. P Nandakumar:** Inorganic growth strategy is because we want to diversify our portfolio. We want to move away from the credit concentration risk from a single product to multiproduct. So we have chosen few areas of diversification. The one area is microfinance. In the overall scheme of things, we want to cap it at 20% of our consolidated AUM. Then comes for home finance, we have plans through organic as well as inorganic route where we intend to cap it even higher around 30% is also fine for us. Then comes commercial vehicle finance etc. So all these put together may be over a period of time, gold loan will be less than 80% or 50% the balance would be 50%. So primarily we have the out of non-gold plan, over a longer period of time, the major portfolio shall be home finance.

**Hemant Patel:** Is there a quantum of upper cap or capital that you are looking at which would be a portion for this kind of acquisition? I mean just trying to understand the size of these inorganic opportunities that you are looking at?

**V. P Nandakumar:** Now, we have a tier 1 capital of around 22% whereas the regulatory requirement of tier 1 is around 12%, the capital adequacy CRAR around 15%, 3% can be met from the subordinate debt also this is an option, then our dividend policy currently the dividend payout is around 40% it will be maintained at that level 40%, so there will be plough back of around 60%. So with the business plan where we aim at is CAGR 20% I think for the next couple of years we may not require to bring fresh capital from outside. It will be met through internal generation and what we have now.

**Hemant Patel:** Alright Sir. Anymore questions I will take it offline. Thanks a lot. Wish you all the best.

**Moderator:** Thank you very much. Due to time constraints that was the last question. I would like to hand the conference over to Mr. Sunesh Khanna for any closing comments.

**Kapil Krishan:** Thank you so much.



*Manappuram Finance  
August 09, 2016*

**Sunesh Khanna:** Thank you very much for joining us today special thanks to the management of Manappuram for letting us to host this call. Thanks a lot all and thank you very much.

**Moderator:** Thank you very much. On behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.