



“Manappuram Finance Limited
Q4 FY2021 Earnings Conference Call”

May 26, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2021 Earnings Conference Call of Manappuram Finance hosted by Antique Stock Broking. 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 Ms. Vidhi Shah from Antique Stock Broking. Thank you and over to you!

Vidhi Shah: Good evening everyone. We have with us the entire management team of Manappuram Finance led by Mr. V.P. Nandakumar. Without further ado, I would now like to hand over the call to Mr. Nandakumar for his opening comments. Over to you, Sir!

V.P. Nandakumar: Thank you. Ladies and gentlemen, welcome to the Manappuram Finance Q4 FY2021 conference call. We hope that all of you are safe and healthy along with your family and friends. The second wave has casted a dark shadow on India, its people, its economy, business and industry. Hopefully, the worst is behind us as things improve from hereon. On this backdrop, let me turn to our fourth quarter results and the full year performance highlights. As you know, gold loans have the dominant share in our companies business mix. About 70% of our loan book is against gold. The industry faced several challenges in the past 12 months such as lock downs and disruptions to the economic activity and a slow down in consumption.

However, I am glad to report that Manappuram Finance has done quite well under these circumstances. For the full year, our gold loan AUM grew by 12% inline with our guidance of 10% to 15% annual growth. The price of gold has peaked in August last year. Thereafter, by the end of the fiscal year, the price corrected by 21%, which is 12% fall taking place in Q4 alone. That affected the gold loan business and some customers faced challenges in renewing their loans leading to a higher cost. At the same the fact that we are predominantly into short-term gold loans in our favor as we carry the price risk only for 5 to 6 months against the benchmark of 15 to 16 months.

This allows us to recognize to initiate recovery thereby protecting our markets. Going forward, we expect higher demand especially from micro and smaller enterprises if they need capital to get back on their feet. Some key performance for Q4 for the full year FY2020-FY2021, our consolidated AUM at 27224 Crores is up by 7.9% year-on-year, but declined by 1.5% quarter-on-quarter while gold loan AUM grew by 12.4% year-on-year and Q-on-Q growth was negative at 5.6% due to the fall in gold prices and higher auctions.



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Our average GLTV is at 71%, our gold holdings stood at 65.33 tonnes. The tonnage degrowth during the quarter was 2.85 tonnes of which one tonne was auctioned quantity.

The micro finance subsidiary, Asirvad Microfinance ended the year with an AUM of 5985 Crores, a growth of 8.8% on a full year basis and 11.7% over the preceding quarter. Given the thrust in the industry, we continue to prioritize asset quality over AUM growth. Asirvad enjoys one of the lowest operating expenses at 5%. Going forward, we expect some short-term pain in microfinance asset quality; however, based on our experience in the past episodes we have positive outlook, we believe that within the microfinance sector companies with lower borrowing cost hence lower lending rates also could be better place as it attracts more credit worthy customers by natural selection.

Our MOSL vehicle business saw a higher GNPS due to lock downs; however, it came down to 5% at the end of the year. Our housing loan portfolio is relatively small and has been steady in terms of asset quality while reporting moderate growth in business. On the liquidity front, we are placed comfortably and we continue to receive funds from all routes at competitive rates. The incremental cost of fund in Q4 was 7.95% with the overall cost of fund for the full year was at 9.1%. We do not expect any funding challenges to come in the way of our growth plans and we are comfortably placed with our AUM, which we monitor closely.

Finally, we are reporting a consolidated quarterly net profit of 468 Crores for Q4 FY2021 and 1725 Crores for FY2021, which is our highest full year net profit ever. Thank you. Now over to our CFO, Ms. Bindu, for a detailed look at the numbers.

Bindu A.L.:

Thank you very much Sir. Thanks to all our stakeholders for attending this quarterly update call. The year FY2021 redefined the way in which we all think and live. We have accommodate this once in a lifetime crisis to strengthen and revamp our balance sheet and presented a healthy performance. Our purposes helped us to stay strong despite the challenges in the external environment. In terms of collection efficiency and disbursement trends in loan segments are close to pre-COVID level; however, the slippages for the system would remain elevated for the near term, the reason rise in COVID cases remain the key monitor.

Now coming to the operational overview, we had carrying surplus liquidity across all businesses, cash and cash equivalents on hand was Rs.2548 Crores and undrawn bank line was Rs.7364 Crores. Our CPS portion has come down to 6.5% against 11% a year ago. In the standalone MDT our position has strengthened significantly, borrowing cost declined sequentially by 18 basis points to 8.77% despite the significant extension in average



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duration of borrowings. Our consolidated AUM for Q4 was Rs.27224 Crores up by 7.9% Y-o-Y and down 1.5% Q-on-Q. The Y-o-Y growth was led largely by gold loans.

Consolidated profit after tax was Rs.1725 Crores Q4 FY2021 up by 16.5% Y-o-Y, whereas the PAT for Q4 was Rs.468 Crores grew by 17.6% Y-o-Y and down by 3.1% Q-on-Q. ROE on a consolidated basis was 26.4% and ROA was 6% for the quarter. Talking about the gold loan business, which constitutes 70% of consolidated AUM, the AUM increased by 12.4% Y-o-Y and down by 5.6% Q-on-Q. Gold holding stood at 65 tonnes. During the quarter we were able to add 3 lakhs new customers on collateral of nearly 4 tonnes of gold. Gold loan average ticket size and average duration was Rs.44600 and 100 days respectively.

Total number of gold loan customers stood at 25.94 lakhs and the gold loan book at Rs.19077 Crores, auctions during the quarter were Rs.404 Crores. The sequential declining AUM was largely on account of significant decline in gold prices by 12% during the quarter and 21% from Q2 disbursement level and disbursement number was Rs.93000 Crores and this portfolio matured in Q4, which led to auction of collateral as well as higher than normal redemption. As you would note, the short tenure of our gold loan product, which is 3 months on an average results in early recognition of NPS compare to other players in the market who offer longer tenure gold loan.

The company follows a policy of regular auctions in case of delinquency. We are happy to inform you that we have not had any significant credit losses despite the sharp fall in gold prices given our regular auction policy. Our weighted average LTV stands at Rs.2922 per gram or 71% of the gold price as on March 31, 2021, our interest accrued was Rs.716 Crores, 3.8% of gold loan AUM. Gold loan disbursement at Rs.44630 Crores compared to Rs.57445 Crores in Q3 FY2021. Online book account for 54% of the total gold loan book. Coming to MFI business, Asirvad MFI AUM stands at Rs.5985 Crores up by 11.7% Q-on-Q and 8.8% Y-o-Y and this business reported a profit of Rs.4.1 Crores in Q4 FY2021 compared to Rs.17.8 Crores in Q3 FY2021.

Our collection efficiency from MFI business was at 101% in March and the disbursements during the quarter was Rs.1767 Crores. Loan lost provision at 5.71% of closing AUM. The company has a capital adequacy ratio of 23.3%. Coming to vehicle finance business, we have reported an AUM of Rs.1053 Crores, which is up by 6.5% Q-on-Q and down by 21% Y-o-Y. Collection efficiency was 103% and 111% in February and March respectively. The home loan business had a total book of Rs.656 Crores, which is up by 5.2% Q-on-Q, it operates at 47 branches and reported a profit of Rs.5.3 Crores during Q4 FY2021. Collection efficiency was 95% and 101% in February and March. Collection efficiency for



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the quarter was 96% compared with 94% in Q3 FY2021. Loan to NBFCs at Rs.183 Crores and Loan to SME and others at Rs.261 Crores.

Provisions and write off with the standalone entity during the quarter stood at Rs.12 Crores compared to Rs.29 Crores in Q3 FY2021. We have provided additional provision of Rs.25 Crores due to COVID-19. Our GNPA is at 1.92% as compared to 1.26% at the end of Q3 FY2021. The board declared an interim dividend of 75 paise on improved performance. Our capital position is strong and the company is well capitalized with the capital adequacy ratio of 28.9%. Company's consolidated net worth stands at Rs.7307 Crores, the book value stood at Rs.86.3. Thank you, now we can go for the Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhaval Gada from DSP. Please go ahead.

Dhaval Gada: Sir, thanks for the opportunity and congratulations on decent performance in the pandemic year reporting 26% ROE. I had three questions, first is related to the collection and billing efficiency, so you provided a collection efficiency for some of the segments in February and March, if you could provide the billing efficiency for the three months and also the January numbers for vehicle and HSV that would be useful so that is question number one. The second question is related to the MFI where you talked about that in the near term you expect some pain and I was looking at the PAR data just trying to understand in terms of coverage what is the level of excess provision that you want to carry going into the first half of next financial year given that the PAR data is still in double digit as we speak, so just your thoughts on what kind of pain can come and how much provisioning you think is required to address the issue. The last question is related to borrowings, overall 8.8% cost of borrowing, I just trying to understand when should we start seeing the benefit of lower rates. I know that you have been increasing the tenure, but is there a scope for seeing some benefit in FY2022, so some thoughts around that, thanks?

Bindu A.L: Senthil, Sir can talk on the collection efficiency.

Senthil Kumar: Mr. Raja can you talk on collection efficiency?

Raja Vaidyanathan: Good evening, the collection efficiency from microfinance business increased from 99% in January to 100% in February and 101% in March and you notice this in April again we had this scare second wave, so there is a certain amount of dip, but it is much, much better than what we had witnessed last year and going forward we are in a much better position to adjust this based on the experience we have had in the last 12 months. On the provisioning question, which you had asked, we had made a provision of 5.7% on the AUM of about 341



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Crores based on the ECL requirement, this is well a first provision which will breakup; however, while making this provision we had taken about 30 Crores of provisions towards the second wave, we still have to assess the impact of the second wave, but I would say that considering all that and considering the higher AUM and higher AUM growth we are going to witness this year. The performance of the company including all the provisions may come during the year would be much better than the current year.

Dhaval Gada: What was the dip in April, sorry I missed that, you said that there was dip in April, what was that?

Raja Vaidyanathan: In April because in Madhya Pradesh and Chhattisgarh announced right in the beginning lock down, it was not very less, from 101% it came down to about 78%.

Senthil Kumar: Good evening, this is Senthil here from Vehicle Finance. In terms of vehicle finance our collection efficiency was 106% in the month of January, which was stable in the month February around 105% and in the March it increased to 113%. Current bucket collections have been now hovering around 90% in the month of March. We have both commercial vehicle and the two-wheeler portfolio, but I think the collections had been similar, the percentages I mean more or less similar in both the portfolio.

Bindu A.L.: And the borrowing cost as you know during the quarter there was a decline in the portfolio and the opportunity for additional availment was less and that is the reason the surplus liquidity we were repaying the short-term maturities, so it have come down, so when we start utilizing additional limits the current incremental cost of borrowing the benefits will be better.

Dhaval Gada: Understood and the question related to write off any comments on that?

V.P. Nandakumar: What is the question on the write off?

Dhaval Gada: Sorry, how much is the write off during the year and what is the kind of impact you can see in the second wave?

V.P. Nandakumar: It was about 123 Crores during the year and normally we have provisions on the write off and the write off we have a policy that anything which is over 180 days and which we feel not being doing is write off and we will follow the same policy, so many times the write off moves from the provisioning, it is not a direct thing, which comes to the write off, so after that we still have this provisioning in the balance sheet, which is about 300 Crores for the year.



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- Dhaval Gada:** Understood, I will come back in the queue, Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Shweta Daptardar from PL India. Please go ahead.
- Shweta Daptardar:** Thank you for the opportunity. Sir, couple of questions, first one is we had mentioned on slide #23 the reason for balance decline, so just wanted to know tractions related decline was pretty sizable then what was the profile of these defaulting customers, second is Madam you had mentioned that we had almost 3 lakhs addition of customers on this particular quarter, so is it that the redemption have been higher than the new collaterals, which came through these customers and therefore that was also the key reason why the balance decline so that is question number. Question number two, this is related to the MFI, so on the MFI if we look at zero DPD or zero DPD PAR quarter-on-quarter there has not been much of improvement, barely from 18% it is down to 16% and in the light of second COVID wave, how do you believe this zero DPD PAR will pan out and lastly I just wanted to know the interest rate and recent ECB raise 15 million for Asirvad Micro finance, that is from my side?
- V.P. Nandakumar:** The reason for the gold loan deduction is one the price is down so when the reset is happening it will be at a lower LTV, the second is of course the cash flow of these customers, rural and semi urban is affected. So our gold loan product is three months, so in the next three months unless they redeem it or renew that new LTV, it will be auctioned. So what they if their cash flow is very much trust either they sell it as a scrap on their own or leave it to the company to sell through auction. We had an auction of around 1 tonne this year, compared to normal situation this 1 tonne auction across all of our branches is pretty high, the reason is their cash flow is not comfortable that is the reason, so you asked the profile, yes most of them are daily wages or petty businessmen, small time entrepreneurs, self employed people, small farmers this is the typical profile of our customers.
- Bindu A.L:** Just to add to that you would remember Q2 we had nearly one lakh Crores disbursement and the portfolio growth was also good for us as majority of the portfolio under three months scheme this portfolio will be maturing in Q4, so these disbursements were happened at the peak price, from the peak price there was almost 21% price fall if we compare at the time of disbursement and the maturity, so because of the cash flow issues, the amount of the principal, part payment of the principal was also concern for the customers and that resulted into higher redemption at the time of maturity majority of the customers redeemed and another 400 Crores we auctioned so these are the reasons so we have given the details in slide #23 and on the ECB pricing, Raja Sir, Asirvad, second wave.



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Raja Vaidyanathan: On this 0 DPD, the question is not a fast declining ratio, so on Q2 we had about 21% and then it came down to 17% and 17.4% in Q3 and as of March it is 15.74%, what happens in microfinance business is once that person enters the zero it is extremely difficult for them to keep paying to installments of one time to bring it back to normalcy, so the year is more or less the company's policy is to make sure they will continue to pay back one particular installment so that they did not move to the next bucket, so the focus is to retain that particular bucket itself at the same stage so that is why we are not feeling a major drawback, it is not a big concern for us because we know that ultimately the pay get extended and the payment is made, just at the second wave, unlike the first wave where we are totally caught unaware and we could not do anything for nearly 4 to 5 months because of the moratorium given, so the resolution of RBI it has come out with the guidelines and all of the for a resolution payment which the company can do based on the stressed geographies so the company is working on it, by end of May we will be in a position to address any increases in zero DPD bucket because of this new second wave and we are on much better provision to address this, we are very confident that this ratio will as the AUM also keeps going, the second point is AUM was not that much in FY2021 and now the AUM is growing all the ratios will look much better for us and I am sure that in the coming quarter this ratio will also show a declining trend. On the ECB amount we have done the recent transaction about 9.7% we did one last year and this is again landmark transaction considering the state of the MFI space and the confident the lenders have in this space and also the company and the group so we feel this is a very significant transaction that is why all quantum is not very large, we felt that as a company, which we should talk about.

Shweta Daptardar: Sure, Sir. I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Prateek Agrawal from ASK Investment Managers Ltd. Please go ahead.

Prateek Agrawal: First, I thought the presentation that you have brought out is pretty interesting, so thumps up to that, a lot of additional data has been provided. Two questions related to the performance of the quarter, which I thought was good in the context of times, one given the valuation why do dividends and not buyback, I understand that there is some regulatory norms on buyback by financials, but if you can payout dividends then to the extent of dividend you should be allow to do buyback that was the first question?

V.P. Nandakumar: So, the buyback you are aware about regulatory challenges?

Prateek Agrawal: Yes, I came to aware the leverage thing, which is there, but I really think that the regulator have a larger buyback in my end when they took that limit, the point is dividends are



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allowed when it is money going out of the company then with that money buyback should be allowed?

V.P. Nandakumar: Yes, we are very conservative as far as our dividend policy is concerned with the improved performance we have increased our dividend also by 10 paise during this quarter compared to the previous quarter.

Prateek Agrawal: I was more on to explore the regulator allowing you to buyback rather than dividend for the same amount that was the query, did you touch base with the regulator for buyback, no?

V.P. Nandakumar: There are regulatory guidelines in this regard.

Prateek Agrawal: The second question was, I was looking at microfinance guidelines and guidelines says correct me if I am wrong, but 85% of a microfinance in the FD has to be unsecured commodity ticket loan what we understand is microfinance, but 15% from the book can be anything else and there, there is no cap on interest rates also if that is right can we use Asirvad to also diversify activity into other higher spaces including gold as well?

Raja Vaidyanathan: We had already started that in our portfolio for 5985 Crores, we have about 45 Crores of other assets, about 42 Crores of SME asset is completely secured and 2.5 Crores of loan and as we speak this year we are going to have much larger portfolio of gold assets. We have knowledge and knowhow of powering company we also want to develop gold loan businesses in the area where they are not currently present and where the Asirvad is present, and they are completely wanting to utilize this 15% as you rightly said.

Prateek Agrawal: So, just an associate saying can you securitize the 15%, securitize buying this 15% when it can become a continuous business?

Raja Vaidyanathan: We can do that.

Prateek Agrawal: So then it can be a pretty large?

Raja Vaidyanathan: It will be a continuous business, yes, you are right.

Prateek Agrawal: I will come back in the queue, I have one more small question.

Moderator: Thank you. The next question is from the line of Shubhranshu Mishra from Systematix. Please go ahead.



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Shubhranshu Mishra: Couple of questions, so the first one is the liquidity on our balance sheet, even bond markets have far and the banks also running at lower rates, why are the we carrying such a huge amount of cash on our balance sheet given the fact that larger portion 70% of our consolidated AUM is gold loan, that is the first question, second is what is the quantum of write off that we have done in the standalone book and how much of that is from the vehicle finance loans and what is the kind of provision that we are carrying on the standalone book these are two questions and the third question, it is actually a data keeping question, what is the proportion of the gold loan AUM itself more than one lakh ticket size?

Bindu A.L: Our business is a cash oriented business so all branches should have some retention amount so that is one reason for cash and as you are aware this maintenance also increasing cash balance and on an average we will be maintaining another 15 or 20 days repayments in cash, so the quarterly numbers are not the average numbers and quarter ended you know there will be some pressure for availment and that is the reason quarterly numbers may be high, but this is not the average, which we are maintaining during the quarter and on the provisions, in the standalone entity we are holding nearly 200 Crores provisions that is 104 Crores for gold loan and another 100 Crores for non-gold businesses, vehicle finance is holding nearly 63 Crores provision in that 100 Crores and the last thing is on the, can repeat the last question, Shubhranshu, proportion of?

Shubhranshu Mishra: Ticket size more than one lakh would be the proportion of AUM?

Bindu A.L: Of outstanding it is 41%.

Shubhranshu Mishra: 41% is more than...

Bindu A.L: In terms of non outstanding 62% is more than one lakh. In the case of customers it is 20%.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal. Please go ahead.

Piran Engineer: Thanks for taking my question, firstly on the gold loan business I just want to understand now that the LTV arbitrage is over between banks and NBFC, how are you seeing competition shape up over the last couple of months and also like what percentage of customer roll over loans and tenure?

V.P. Nandakumar: So, the competition, yes, you have said that 90% LTV permitted to the banks, LTV is over from the last quarter, so there is good opportunity for the growth in the AUM, now the situation is almost half of our branches are not able to work because of the lock down, I



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think when the branches are open, which we are hopeful of towards the end of this month all the branches, the growth opportunities would be good, the competition for the banks in that front of LTV, yes, definitely come down and the roll over percentage, 80% of the customers, 80% roll over is there, that the roll over means when they roll over they bring this to the current moving LTV and they pay interest up to that date.

Piran Engineer: Got it and Sir, I was also seeing our performance in the fourth quarter in the gold loan business compared to some of the banks, now we had that issue in Maharashtra where our branches were shut in third quarter so that also continue in the fourth quarter leading to surfed growth performance?

V.P. Nandakumar: No, that was over during the last quarter itself, see one thing which has to be understood here is our price risk management is better than the industry average. We are short-term lender, three month lender whereas the industry in general is a one year lender, so we have seen a price decline from the peak to the lowest level last quarter was around 21%, so in that situation we feel like three month product is always safer and customers has the option to roll it over the prevailing LTV, so our risk management practices that we believe that is better.

Piran Engineer: Got it and just one last clarification from Mr. Raja Vaidyanathan, I did not hear correctly the collection efficiency in MFI was 78% or 98% in April and what was it in May?

Raja Vaidyanathan: The collection efficiency is dropped by 7% to 8% I said.

Piran Engineer: It dropped by 7% to 8%?

Raja Vaidyanathan: Yes.

Piran Engineer: From 101%?

Raja Vaidyanathan: Yes, correct.

Piran Engineer: And is that a similar level in May because I am thinking May would be a larger decline?

Raja Vaidyanathan: May, as of yesterday it was much more on that, but it is understandable because 90% of the branches are closed, but as I said the customers contacted will be maintain then all the customers are saying that they have cash to pay and is it only the logistic which is preventing them, so we are expecting a clear bounceback.

Piran Engineer: Got it. Thank you so much for answering my question and all the best, thank you.



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Moderator: Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Thank you for taking my question, Sir. Just on the MFI bit, if you can give some more colour on disbursements policy what would be the policy on disbursements to the existing customer or zero plus and what proportion that would be of our total businesses in Q4, may be if you could just touch upon the collection scenario in some of the weaker states, West Bengal and the Maharashtra, I do not know Assam may be?

V.P. Nandakumar: The policy in the disbursement policy has always been in the existing customers first, so our priority is always retaining of the existing customers by giving the higher ticket size obviously even these customers should be non-defaulting customers and should have been paid on time that policy continues we will continue and the policies will be continued right across, but what we do during the crisis period at certain times, we try to convert one or two installments earlier so they have a cash in hand and we take the installments that is the only change we make during difficult times; however, the policy remains the same, in our proportion of new members and existing members, the existing members will always be more, we are trying to push more from about 55:45 to about 75, definitely going toward 80:20, this is the number we needed conversion of the 80% and 20% on disbursement that is the policy which we have. Obviously one reason is that the ticket sizes are higher so we pushes up even in terms the volume, that is the first question, what about the second?

Prashanth Sridhar: The collection is some of the weaker states?

V.P. Nandakumar: Very ironically, the states which are very weak earlier the collections are better now. We have excellent collections right now in Odisha, West Bengal, and the areas either which suffered greatly in the first wave, so it is a mix and states like Tamil Nadu, Karnataka and all there because of the lock down it decreased, so it has changed now and therefore because the original states in which are doing better now in the second wave, but it is a good thing for the company and that is our optimism is also based on that particular point where the subsets of the COVID-1 impact did not impacting economically now, which is more impacting the humanitarian grounds and we found that among our borrowers, the people are affected by this very, very small proportion and that is the reason why we feel that collection once the lock downs are lifted will definitely bounceback to the earlier level if not immediately at least to 90% plus in June like that going forward may improve more. All the states are doing better now.

Prashanth Sridhar: Sure, just one data keeping question, across the different loan products that Manappuram does, if we can the stage 2 and restructuring numbers as on date that is it from my side?



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Bindu A.L: MFI is around 4% in the book and vehicle finance around 8%, no other portfolio other than the restructure.

Prashanth Sridhar: Sure, and how would the stage 2, so other than MFI and vehicle finance there is no restructuring and how would the stage 2 numbers be?

Bindu A.L: That I will come back.

Prashanth Sridhar: Sure, no problem. Thank you so much.

Moderator: Thank you. The next question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Sir, my question is mainly on the microfinance business, so when we started this business in 2014-2015, the sector dynamics were very attractive, the overall credit cost used to be 1% across the cycle, but now we are seeing that especially in the last 4 to 5 years, the average credit cost for the whole industry has been 3% every year, as we know we have two good year, we have bad year where we lose almost everything that we made in the previous two years so may be that the risk for such for a microfinance industry has really changed in the last 6, 7 years, so Manappuram as a company do we have anything in mind in terms of repainting our microfinance, may be you want cap the microfinance loan book at x% of our overall loans or may be do status order saying microfinance which you know in hands of marketing material saying that we will do gold loans in Asirvad, so any thoughts on this could be appreciated, so that is my first question?

V.P. Nandakumar: See, the last 3 to 4 years were unusual years, one because of the demonetization, demonetization has hit the microfinance customers the worse than many sectors because they were in the cash economy and then they were relying on the cash economy, so that was a big hit and then the pandemic, that also hit the microfinance profiles very badly. Even in spite of that the microfinance industry has come back so these impacts were at a short-term duration that is the reason we believe in the strength of the microfinance industry, it will come back, it will come back to pre-pandemic, pre-demonetization very fast, so one thing is we have taken into account here the resilience of this business in confronting these challenges like demonetization, etc., so we believe that microfinance business on a sustainable model can bring forth an ROE of over 20%, so it is a good ROE in any lending business, so we stick to our plan of having microfinance business in our hold we expect that to be around 10% to 15% of our portfolio.

Digant Haria: Sir, you said 10% to 15%, I did not hear that?



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V.P. Nandakumar: 10% to 15% we feel like would be the ideal situation, our businesses are also secured businesses are also growing like gold loan we expect 10% to 15% growth, affordable housing we expect a higher growth percentage, the commercial vehicle segment and the secured MSME business also we look forward for higher growth percentage.

Digant Haria: Sir, 10% to 15% is a good number because as I see now we are 6000 Crores out of 26000 Crores roughly anywhere 23% to 24% of our loan book is in microfinance and anyway somehow this microfinance business doing a lot of volatility in our profitability because gold is a very steady business, we have exceptional ROEs and very well in gold loan business, but other than 10% to 15% cap overall means that may be in the next 5 years gold and microfinance should probably grow at the same rate because otherwise the proportions would not balance, right?

V.P. Nandakumar: Yes, it will be like that, see in gold loan business because of the situation, one the cash flow of the gold loan customer has hit very badly because they are also mostly from the bottom of the pyramid, then other issue was a sudden decline, unusual decline in the gold price, we see what has come for auction now in our case is what we have lend at the highest LTV in terms of amount at the highest gold price, so it has come to the lower so the auctions that we conducted at the lowest price during the last 6 months, which has to be conducted at the lowest price during the last six months, so this had led to a decline in the portfolio which will be adjusted, which will be corrected in a steady phase.

Digant Haria: I have been tracking you for a long-term and do know that we get the hit upfront and the other players take around one year to take that hit, so that is completely fair, so my second question was on this gold loan business itself that in the last 14 to 15 months a lot of banks have entered, as you rightly said lot of them do not have the backend infra to auction the gold loan time or the risk management they are still learning, but one thing looks clear that may be some banks will stay in this gold loan business even though the LTV relaxations are not there, if the growth is not as good as in the past, so what is our learning may be some of our customers or employees had gone to the bank, what is our learning in terms of how do we react to this new set of players who will probably be there for a longer time now, that is my second question?

V.P. Nandakumar: See, the banks are there in the gold loan industry over a century in fact, so why they do not want to scale up, so their approach to these short-term loans for small tickets is very different from a specialized player like in NBFC, so we have with us to dispense our customers in the matter of 10 to 15 minutes whereas the bank counters are open from 10 o'clock, they are available up to 1 o'clock for gold loan customers, these does not suite, so many of our customers redeeming during the first week itself, one-fifth of our customers



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redeem during the same month for such a loan of 20000, 25000 wasting a day for pledging or lease, may not work for them, it becomes relay too costly for them because they lose 2 days wage going to a bank so the bank customers and our customers are different now you are very right, absolutely right and you say recently we have seen an aggression from banks, there are two reasons for that, one their other lending opportunities were limited because of the aversion for sometime, they have some risk aversion any lenders have their own risk aversion before taking steps after the last years lockdown, so that is one reason, then the thought of going to the safest business, and the second thing is they have an opportunity to lend up to 90% and this has helped many of them to refresh their other NBFC, so these are two reasons for that aggression. Now, that 90%, many of these lenders would feel like it was not a good decision even though there was a measure, the reason is currently what they carry their lending amount over the principal itself is higher than the current price of the gold, so I do not think the NBFC will have a sustainable competition from the banks and the opportunity for NBFC is very large because as per our assessment, 75% of gold loan market is still dominated by the unorganized players.

Digant Haria: Right, Sir. Thank you so much for this clarification. Wish you all the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Akshay Ashok from Dalal & Broacha Stock Broking. Please go ahead.

Akshay Ashok: Thanks for giving me the opportunity to ask the question. I just had two questions, the plan for **audio cut 56:31** are you planning for launch in IPO and what is the timeline and then I want to know what is the unique customers you have in gold loan like only people who have taken a gold loan and not taken both the microfinance loan as well as the gold loan, so if you could just if possible give the unique customers, what percentage will be unique for gold loan, thank you?

V.P. Nandakumar: So, IPO plan for microfinance is what you asked, right?

Akshay Ashok: Yes, I read an article that you have made that we are planning to increase the microfinance business, I just want to know what is the plan and what is the timeline?

V.P. Nandakumar: See, the capital adequacy of the microfinance business is around 24%, the capital adequacy is around 28%, so the group itself has got a very high capital adequacy, that does not mean that we will not go an IPO so all will be to protect the interest of stakeholders, yes, if the valuation is good, market is very good, we may look at an IPO for the microfinance, but when is the market going to come, I think it may come back sooner than later because the



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resilience is fully seen, resilience of a microfinance industry confronting these challenges are now known to the market, known to the investors, so it will be only the interest of shareholders we may take a call, but not for want of capital.

Akshay Ashok: But Manappuram will have controlling stake in Asirvad microfinance that is what you think?

V.P. Nandakumar: Yes, in case of microfinance business after fully convinced that it is a good business, it can give us ROE of 20% range.

Akshay Ashok: The percentage of unique customers in gold loan business?

V.P. Nandakumar: It may be 10%.

Akshay Ashok: 10%, okay. Thank you.

Moderator: Thank you. The next question is from the line of Aalok Shah from MNCL Group. Please go ahead.

Aalok Shah: Sir, thank you for this opportunity and for putting a good result. I had a few questions on what we saw through, one is on client additions, how do we look at that as an overall numbers for our gold businesses, a gold loan and MFI, you talked about adding close to 3 lakhs customers in the gold segment in Q4, how is that looking like as we speak now, likewise on the microfinance space what is that we are looking at in terms of client addition or the AUM?

V.P. Nandakumar: So, client addition we are looking at a rate of 10% to 18% annually, yes, that is possible and we have introduced several innovative products like online gold loan, gold loan to the doorsteps of the customers, etc., and cross selling options, so we have to sustain customer addition at the rate of 10% 18% range, the client addition in microfinance, I request Mr. Raja to comment on that.

Raja Vaidyanathan: Currently, we are about 25 lakhs in numbers so we are expecting to add about 4 to 5 lakhs members this year basically because this year is going be new member additions may be less this year, we want to retain more of the existing customers, but on a normal year we definitely want to do an addition about 22% to 25% of the membership on the membership basis.

Aalok Shah: And when we talk about adding the customers, a substantial part of our client base from the existing clients, how is the incremental ticket size looking like that?



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- Raja Vaidyanathan:** How is the?
- Aalok Shah:** Incremental ticket size?
- Raja Vaidyanathan:** We have a clear policy based on cycle wise ticket size increases and we follow that and we are more conservative on the total ticket size we had, for 15 years we have still yet to cross Rs.60000 and only this year we are planning to cross Rs.60000 and these are the ticket size to the customer so we may very judicious in increase based on the cycle size and the performance, with cycle and the performance of the client, in cycle there is an increase of 30% percentage.
- Moderator:** Thank you. The next question is from the line of Utsav Gogirwar from Investec. Please go ahead.
- Utsav Gogirwar:** Thanks for the opportunity, Sir. Just want to reconfirm on the microfinance business you mentioned that outstanding provision is around 300 Crores, is that correct?
- Raja Vaidyanathan:** Yes, 342 Crores is the provision, the charge to this year is 300 Crores based on micro finance and we have also include the 30 Crores Covid related provisioning.
- Utsav Gogirwar:** And secondly can you help us with the PAR 50 and PAR 64 the top three states?
- Raja Vaidyanathan:** The top three states, you want bucket wise?
- Utsav Gogirwar:** Yes, with the other top states?
- Raja Vaidyanathan:** I immediately do not have that state wise, I could give it to you later, but West Bengal is one of the topest states, but more in the first 1 to 30 and 30 to 60, as I said because the livelihood is affected so it hit us in the eastern states only.
- Utsav Gogirwar:** Secondly on the loan interest invest, so even in the presentation you highlighted that going forward you focus on the new channels, which had doorstep business through BSA sales, so can you just help us with, how do the BSA works in the gold business?
- V.P. Nandakumar:** See, BSA means here we call it as business associates, these are our own customers, we are not relying corporate BSA also, barring a couple of NPOC we plan to call it, other than that there is no BSA, our own business associates bring us the customers from their community.
- Moderator:** Thank you so much. The next question is from the line of Bunty Chawla from IDBI Capital. Please go ahead.



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- Bunty Chawla:** Thank you for giving me the opportunity. Sir, just one question, if we see the standalone gross NPA, which has increased to 1.9% from standalone part vehicle financing portfolio, where the gross NPA in fact decline on a sequential basis, which reflect that gold loan AUM NPA has increased substantially, although we have said that there has been a 400 Crores of provisioning, 400 Crores of auction has been already done, so if you can share your thought process on that as well as if you can share the data on these auctions we have any interest reversal or interest loss on this auction, that is it from my side?
- V.P. Nandakumar:** See, in gold loan the NPA is only technical it is because of one reason only, so we had the buyers for this, but we were not able to sell because the branches are closed so we have to classify it as an NPA, which is going to be liquidated in the ensuing month or quarter that is it.
- Bunty Chawla:** Sir, on the interest loss?
- Bindu A.L.:** We are accruing the income as per the accounting policy so we have prudent accounting policy and that is the reason we were able to maintain stable gross income.
- Bunty Chawla:** If you share interest accrual as of FY2021?
- Bindu A.L.:** So, 716 Crores.
- Bunty Chawla:** Thank you. That is it from my side and best of luck.
- Moderator:** Thank you. The next question is from the line of Abhijit Tibrewal from Reliance Securities. Please go ahead.
- Abhijit Tibrewal:** Thanks for taking my question. I was just referring to your slide #23 where we have spite out that about 5 billion was the gold remitted or decline in your AUM and about 23 billion was because of a decline in gold prices, it sounds like a simple questions, but if you could just explain the difference between the two?
- Bindu A.L.:** So, we added a lot of new customers during the quarter, but because of the lesser LTV the eligible loan amount will be lesser than the earlier quarters, so that is what we try to explain, what is the pricing that and what is the LTV adjustments are, LTV goes at 62% has gone to 71%, these are because of the decline in interest, because in the past if the customer has to avail Rs.10000, he has to bring may be 4 grams of gold, but now at the time of decline in gold price, he may be coming with the same quantity of gold, but the eligible



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amount will less, so this reversal will happen at the time of increase in gold price so that is what we explained in this slide.

Abhijit Tibrewal: And the last question was, I mean while we had suggested that you have auctioned about 4 billion or one tonne of gold I think in quantum terms or other amount currency term to 400 Crores, can we rightly assume that whatever loan disbursement that you did may be in the months of August and September, which is Q2, all of that has either been recognized as a NPA or has actually been auctioned of now, in other words is there a proportion of the book where you would have done disbursements where gold prices were at its peak and they are still sitting in your book now?

V.P. Nandakumar: The gold price when it was peak, yes, these are auctioned.

Abhijit Tibrewal: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I will now like to hand the conference over to Ms. Vidhi Shah. Thank you and over to you.

Vidhi Shah: Thank you everyone for joining the call and I really thank the management for giving us an opportunity. We can now disconnect the lines. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes this conference. Thank you for joining. You may now disconnect your lines.