



## “Manappuram Finance Limited Q4 FY22 Earnings Conference Call”

**May 18, 2022**



**MANAGEMENT:** **MR. V.P. NANDAKUMAR – M.D. & CEO,  
MANAPPURAM FINANCE LIMITED**  
**MS. BINDU A.L. – CFO, MANAPPURAM FINANCE  
LIMITED**  
**MR. B.N. RAVEENDRA BABU – M.D., ASIRVAD  
MICROFINANCE**  
**MR. YOGESH UDHOJI – CFO, ASIRVAD  
MICROFINANCE**  
**MR. K. SENTHILKUMAR – HEAD (VEHICLES &  
EQUIPMENT FINANCE)**  
**MR. SUVEEN P.S – CEO, MANAPPURAM HOME  
FINANCE**  
**MR. BIKASH KUMAR MISHRA – CFO, MANAPPURAM  
HOME FINANCE**

**MODERATOR:** **MR. PRADEEP AGRAWAL – PHILLIPCAPITAL (INDIA)  
PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q4 FY22 Earnings Conference Call of Manappuram Finance Limited, hosted by PhillipCapital (India) Private Limited.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressure “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pradeep Agrawal from PhillipCapital (India) Private Limited. Thank you, and over to you, sir.

**Pradeep Agrawal:** Thank you, Rutuja. Good evening, everyone, and welcome to quarter 4 FY22 Earnings Call of Manappuram Finance. To discuss the results, we have with us Mr. V.P. Nandakumar, M.D. and CEO; Ms. Bindu A.L., CFO; Mr. B.N. Raveendra Babu, M.D., Asirvad Microfinance; Mr. Yogesh Udhoji, CFO, Asirvad Microfinance; Mr. K. Senthilkumar – Head, Vehicles and Equipment Finance; Mr. Suveen – CEO Manappuram Home Finance; Mr. Bikash Kumar Mishra – CFO, Manappuram Home Finance.

I would now like to hand over the call to Mr. Nandakumar for his opening remarks. Over to you, sir.

**V.P. Nandakumar:** Thank you, Mr. Pradeep Agrawal. Good evening, ladies, and gentlemen. Welcome to our Q4 FY 2022 Conference Call. In our last con call to discuss the Q3 Results, I had expressed optimism about the signs of recovery in the economy, despite the Omicron variant then active and how we were beginning to see an improvement in the unorganized and rural sectors as well. It’s then our assessment the recovery of the economic activity in the unorganized sector has been somewhat uneven with some parts doing well, but in many household and small businesses is not out of woods as yet. In keeping with that assessment, we have achieved a sequential growth in our home loan finance as well as in vehicle and equipment finance division through the quarter. However, our core business of gold loan and our microfinance subsidiaries did not see growth through the quarter.

Our consolidated AUM stands at Rs. 13,260 crore, which represents a growth of 11% year-on-year but a dip of 0.5% quarter-on-quarter mainly due to static performance in gold loan and microfinance portfolio. In gold loans, we were faced with certain challenges arising from intense price competition amongst the NBFCs which prevailed for much of the year and which had begun to affect our margins. Therefore, we took a conscious decision to steadily withdraw from the price war, notwithstanding its short-term impact on growth. However, going forward, we see this as a temporary or passing phase because of unhealthy competition which means no one.

Our gold loan portfolio stands at Rs. 50,168 crore, which has growth 6% year-on-year, but has come down by 1.5% sequentially due to a reason such as price competitions amongst the NBFCs which I mentioned earlier. For the same reason, our consolidated quarterly net profit of Rs. 261 crore which is similar to that reported for Q3. Our microfinance subsidiary, microfinance loan have posted a sequential decline of 3% in the AUM which stands now at Rs. 6,653 crore. We

continued to focus on prudent lending in this unsecured business due to the residual impact of the pandemic third wave. We expect to receive focus on growth once the economic recovery is on firm ground. Our commercial vehicle business benefited from the economic recovery and a reported a brisk quarter-on-quarter growth of 8% to Rs. 1643 crore while our housing finance subsidiary grew its book by 3.5% through quarter 2 to Rs. 845 crore. Similarly, our MSME and allied business grew sequentially by 29% through the quarter to Rs. 919 crore. For the full details of the performance of all our business and for comprehensive take on our overall financial performance, it is over to CFO, Ms. Bindu A.

**Bindu A.L.:**

Good evening, ladies, and gentlemen, and thank you for joining us for discussion on our financial results for the quarter of financial year '22. With respect to gold loan demand, we continued with our offerings of competitive interest rate to high-ticket size gold loan customers who are price sensitive. Currently, over Rs. 2 lakh ticket constitutes 33 percentage of our AUM. In the light of new MFI regulations, we are in the process of building secured loan book by adding gold loan business. The gold loan AUM as on 31st March 2022 in our share book stands at Rs.300 crore. From an accounting standpoint, we have prudently recognized the likely impact of RBI guidance. Accordingly, one significant change during the quarter has been that we have stopped considering the collections after the balance sheet date as a reduction from NPAs, even though we are technically permitted to consider up to 1 month collection after the balance sheet date. This has been the main reason for the increase in company's reported GNPA.

On a like-for-like basis, if we consider the post-balance sheet date collections as per past practice, our GNPA as on March 31 would be 1.42% versus 1.36% during the previous quarter.

Now coming to the operational overview, we are carrying surplus liquidity across all businesses and legal entities of the group. Cash and cash equivalents on hand on a consolidated basis was Rs. 2,697 crore and undrawn bank line was Rs. 4,052 crore. Our CP exposure is only 3.9% of total borrowing in the standalone entity. Our ALM is well positioned across all buckets. Stand-alone borrowing cost has come down to 7.15% in comparison with 7.47% in Q3 FY '22.

Our consolidated AUM for Q4 FY22 was Rs. 30,260 crore, marginally down by 0.5% Q-on-Q and up by 11.2% Y-o-Y. During this quarter, we were able to maintain our AUM despite huge competition from the market. Our average LTV is 62%, which is well below the peer group. During this quarter, there was a strong focus on managing our cost position. Cost to AUM decreased from 7.07% in Q3 FY22 to 6.48% during Q4 FY22. Consolidated profit after tax was Rs.1,329 crore for FY22, down by 23% of Y-o-Y due to reduction in gold loan IRR in the second half of the year. Consolidated profit after tax for the quarter was Rs. 261 crore, similar to last quarter. ROE on a consolidated basis was 12.6% and ROA was 3% for the quarter. Our leverage is currently only 2.9x.

Talking about the gold loan business, which constitutes 67% of the consolidated AUM, the remaining 33% comprises of microfinance, vehicle, housing, and SME finance. Gold loan AUM

decreased by 1.4% Q-on-Q, and up by 5.7% Y-o-Y. Gold holdings stood at 68 tons down by 2.9% Q-o-Q, and up by 4% Y-o-Y.

During the quarter, we were able to add 3.75 lakh new customers. Our average ticket size and average duration was Rs. 56,568 and 82 days. Advertisement has come down to Rs. 12.2 crore. Standalone PAT for FY22 was Rs.1,304 crore. Our standalone profit was Rs. 265 crore, up by 2.4% Q-on-Q. The total number of gold loan customers stood at 23.9 lakh, the gold loan book at Rs. 20,168 crore. Our gold loan disbursements during the quarter stood at Rs. 30,930 crore compared to Rs. 24,929 crore in Q3 FY22.

Coming to microfinance business. Asirvad AUM stands at Rs.7,002 crore, down by 1.2% Q-on-Q and up by 17% Y-o-Y. And this business reported a profit of Rs.13 crore for FY22, down by 20%. This quarter, MFI reported a loss of Rs. 7 crore compared to a profit of Rs. 60 lakh in Q3 FY22. Our collection efficiency from MFI business during the quarter stood at 99%, and disbursements during the quarter was Rs. 1,124 crore.

Coming to Vehicle Finance business, we have reported an AUM of Rs. 1,643 crore, which is up by 8.8% Q-on-Q and by 56.1% Y-o-Y. Collection efficiency for the quarter was 104% compared to 103% in Q3 FY22. Home loan business, total book of Rs. 845 crore, which is up by 3.5% Q-on-Q and up by 26.9% Y-o-Y. It operates from 73 branches and reported a profit of Rs. 7.2 crore during the year. Collection efficiency for the quarter was 109% compared to 100% in Q3 FY22.

GNPA brought down to 5.9% from 12.3% during this quarter, and we are compliant with the new RBI IRAC norms. Loan to NBFCs at Rs. 31 crore and loan to the MSME and others at Rs. 920 crore. Provisions and write-offs during the quarter Rs.24 crore compared to Rs. 17 crore in Q3. The Board declared an interim dividend of Rs. 0.75 during the quarter. Company is well capitalized with a capital adequacy ratio of 31%. Consolidated networth stands at Rs. 8,368 crore. Book value stands at Rs. 98.9. Thank you. We can go for Q&A now.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Dhaval Gada from DSP.

**Dhaval Gada:** I had 3 questions. First is relating to the pricing pressure in the gold business. If you could update what is the current situation? And your outlook on lending rates in the gold loan business? The second question was regarding the tenure mix in gold loan, if you could provide how much is 3 months or below? And how much is above that? And the third one is, I see there is a Rs. 63 crore fair value gain during the quarter. Is it on account of assignment in the MFI book or any other portfolio? If you could just clarify that. Those were the 3 questions.

**V.P. Nandakumar:** The pricing pressure, so we have decided that for this we believe to be prudent for us, we'll settle that. We thought it will be somewhere around 21%. So, currently, our disbursement will be around 21%. So, we have decided that we will stick to that. We had a discussion with some of the players, and some of the players have already toe our line. Another large company has said

they will toe our line of pricing, which is seen by the industry as reasonable, that is around 21%. So, we believe that gradually, the market will realize the necessity of a reasonable pricing and so a reasonable price war would end. Your second question in your mix you set around is 2/3 is in 3 months and 30% in 6 months. And below 5% is in 1 year where the LTV granted is 60%.

**Bindu A.L.:** On the third, in MFI, we did assignment transaction, and that is the reason for the onetime income during this quarter.

**Dhaval Gada:** Sir if I may ask a follow-up on the first question. So, in month of April, have we seen further reduction in gold AUM because of maintaining the yield or is the portfolio growing?

**V.P. Nandakumar:** Yes It was so. During the month, it was rather stagnant, or it was flat. But May, we have seen slight growth. And we hope by June things will further improve. We are showing signs of growth now. So, May, there was a marginal growth and slowly but it is picking up. And towards June what happens is with school reopening, etc, it starts to catch up then. After that once the monsoon is over, sowing season starts, this is how the season for the gold loan comes. So, we hope that this year we are targeting minimum growth of around 10%, not less than 21%

**Moderator:** The next question is from the line of Piran Engineer from CLSA. Please go ahead.

**Piran Engineer:** I had some questions on Asirvad. So, firstly, sir, can you comment on what is the proportion of restructured loans in Asirvad? Secondly, when Bindu mentioned about the change in accounting policy for NPLs, has that impacted Asirvad too because their NPL is up 70 bps Q-o-Q. And lastly, how much of yield hike are we taking because of the removal of the spread gap?

**V.P. Nandakumar:** With the removal of this NIM cap, we have factored few things in pricing. One, we have factored around 3% credit cost because we have taken the past 5 years which include the demon period, then his pandemic, we have seen the credit cost on an average to be around 20%. So, that is factored in the new pricing. Now, it's to Yogesh.

**Yogesh Udhoji:** So, on the restructuring, we have currently 12%, 12.5% book, which is still remaining at around Rs. 790 crore. We had followed this and for Asirvad, we never considered that collection. So, that way, we have not provided anything extra in net NPL.

**Piran Engineer:** Sorry, I didn't get you. My simple question was, have we changed the accounting policy like a change in the standalone business even if you collect 1 month after the balance sheet that you reduce your NPL, something like that. Have we done that in Asirvad?

**Yogesh Udhoji:** No, we have followed what new IRAC norms, where we cannot upgrade the account to standard, unless we collect the full collection. So, we have aligned with that policy.

**Piran Engineer:** So, we aligned with that this particular quarter or was it last quarter?

- Yogesh Udhoji:** Current quarter we have aligned. In last quarter, we have not taken that. We have taken this in the current quarter.
- Piran Engineer:** So, that explains the increase in NPL?
- Yogesh Udhoji:** Yes.
- Piran Engineer:** And just on the first question again, I may understand that we factored in a 3% credit cost to determine the new yields. But net-net, how much have our yields gone upside?
- V.P. Nandakumar:** By 4%.
- Piran Engineer:** I'm sorry?
- V.P. Nandakumar:** By 4%.
- Bindu A.L.:** 4%, Piran. Earlier, it was 20.8%.
- Piran Engineer:** 4%?
- Bindu A.L.:** Yes.
- Moderator:** The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** Bindu ma'am, firstly, maybe for the benefit of all, if you could please explain what was that change in NPA recognition norms that you talked about in your opening remarks, which has led to such a sharp spike in your gross and net NPAs in the standalone business?
- V.P. Nandakumar:** So, as mentioned in the opening remark, earlier, we were taking 1 month collection post closure. And now we have stopped that. So, that is a spike to the NPA, which is only temporary. These are not real NPAs. These are all technical NPAs, where gold is there as security. So, these are realized during the next quarter. So, this is -- so this will not lead to any credit cost. So, it's only a timing issue, so it is deferred to this quarter and that will not be repeated.
- Abhijit Tibrewal:** Sir, my second question was on the MFI business, how do we explain the plan that we talk about collection efficiencies of 99%. And if you look at, I mean, some of the other MFIs who are either listed or unlisted, they have all exhibited very strong momentum, talk about disbursements or improvement in asset quality. But what we have reported is quite contrary to what others are seeing, at least in the MFI business. And secondly, sir, how do we explain the flip-flop that we are currently seeing in the MFI business? Second quarter of this fiscal year, there was such a sharp growth in your AUM. And then for the next 2 quarters, Q3 and Q4, we say we are concentrating on asset quality and collections and we are seeing the MFI AUM degrowth.

**V.P. Nandakumar:** No, it is not a flip flop. So, during the past 4 months, we are seeing a collection at the rate of 100%, including AGS. So, we have seen a steady decline in delinquency, but the old, restructured portfolio from that, and now everything has come out that will flow to NPA. That is the reason.

Now, yes, during that quarter the disbursals were high. We thought we will take a steady growth. So, not only that, there was some reason also to slow down in disbursals last quarter. The reason is they were talk about 1 more **revisit 24.06**, etc., it was clouded with some uncertainty. So, we thought let us see how the things are panning out, the pandemic is panning out. So, now we have the new norms. Yes, we started disbursal. We are expecting a disbursal of around Rs. 6,000 crore this year. So, it will be at same pricing of 24%, that would give us comfort. So, the new disbursals, the collections are good. The collections are more or less of the pre-COVID level, but we expect a credit cost of 1% extra. So, that's why we have budgeted for next year's budget, etc. So, we've had churn of the portfolio, etc, at this rate of some Rs. 500 crore advance with some filters in the disbursal, et cetera. We hope things will improve a lot, and we are targeting a reasonable profit during this year. And next year will be a full year as well as the business performance is concerned compared to pre-COVID level.

**Abhijit Tibrewal:** Sir, with your permission, I wanted to squeeze in one last question on your core gold loan business. Sir, while you explained that the recovery has been uneven in some of the unorganized sectors, and because of which the demand clearly, sir, looking at the kind of sequential degrowth that we saw in your whole AUM, I mean clearly suggests that the demand has been weak. So, what in your view really explains this kind of a demand today? Your core which used to be rural customers and on and off, we keep hearing about demand being really slow in rural India. Does that explain the kind of demand, big demand that you're seeing right now? And I also remember seeing in your presentation you talked about liquidity tightening and cost increasing leading to some of your other weaker peers not being able to disburse which could lead to a rising yield. But sir, A, you talked about some unhealthy competition between NBFCs. But very clearly, sir, I understand from at least mid-May onwards, we have seen a lot of rationalization in the unhealthy competition, which was prevalent perhaps in January and February. So, how has that, I would say, competitive landscape, which was very, very aggressive between NBFCs until March progressed, let's say, in April and May.

And sir, lastly, I mean, are we actually kind of competing among NBFCs? Or is our real competition today with banks and predominantly higher ticket size customers, and which is why, I mean, the impact that we are seeing on the yields today sir.

**V.P. Nandakumar:** The first part, even though the economy started improving, so this is mainly because of some of the demand from the upper middle classes, the formal sector, and the upper middle class. So, the bottom of the pyramid that demand is still, that is triangular. So, we can definitely see this in rural areas. The spend for social functions like festivals, marriage, etc, has come down drastically. So, their income is improving slowly. It is expected to improve with investments in infrastructure, etc, as planned by the government, etc, it is truly improving. So, once the demand

is caught up there, I think the pricing is to go up. Good part is there is a growing realization among the NBFCs that there should be a better rationalization as far as pricing is concerned. The second part is the competition, is the competition with NBFCs or between NBFC and the bank. The bank customer and the NBFC customer as far as gold loan is concerned, the requirements are different. One, profile also to some extent is different. So, the requirement, there is different business impact. Those who wanted a shorter loan, say, 1 month, 2 months, 3 months, etc, will not waste 2 days going to a bank. For a daily wage earner for example, he loses around Rs. 1,500 to Rs. 2,000, if he goes to a bank by actually wasting his full day, that's why even the customers for a larger ticket also for a shorter customer.

So, we have seen all these years, particularly the awareness about all these are very high amongst the population like Kerala. The NBFCs are also growing just because of this reason. There is a difference, it's more than a profile, the requirements for which they approach a lending institution whether a bank or a nonbank. This is different, means somebody wants for a long term, say 1 year, etc, 2 years, etc. So, he has a reason to go to bank and waste 2 days. So, essentially, the competition is amongst NBFC. So, NBFCs started cutting the rates and the NBFCs also felt like there is an irrational competition. So, to some extent, we have stopped that. Another thing for this competition, as I have highlighted in my earlier discussion, there was availability of money for NBFCs, the banks are flush with funds, etc. And also the policymakers intention was also to keep the rates lower and make the money available to everybody. So, now because of the inflation, the trend has changed now. The indicative rates have gone up by 40 bps. And again, we all believe that it is likely to go up further sooner. So, the mindset is staged, so slowly the rates are increasing. Now I hope in another one quarter the demand from the bottom of the perimeter would pick up, thereby the rates will go up. So, this I believe that our rate cuts like this is temporary. They may not last for long.

**Moderator:** The next question is from the line of Shubhranshu Mishra from UBS. Please go ahead.

**Shubhranshu Mishra:** The first question would be on the yield. So, we've seen a yield compression. Alongside we've also seen the online gold loan proportion going back to what we were around 3 years ago. So, are these the normalized levels going forward at around 19%, 20%? And if you're looking at the ROAs from 5.5% to 6%, are these the normalized levels of ROAs and yields going forward? That's the first question.

Second is on Asirvad. Are we looking out for a strategic investor in the microfinance business or for some incremental capital deployment? That's the second. And third of the data keeping question. What's the accrued interest for this quarter?

**V.P. Nandakumar:** So, as I mentioned earlier, we are currently settling down at 21% yield in gold loan. So, we feel like other NBFCs will also slowly come back. We are targeting a yield not less than 5% ROA. So, this is our target. So, our consolidated ROE is down primarily for one reason -- major reason is not only the reduction in the ROA, but also microfinance sector, which is substantial for us. It is important. Some startups reporting profit as the reason.

So, the micro finance growth you said for the capital requirement. Yes. We are targeting a growth of around 20% in the MFI business. So, for that we prefer to have base capital, but the situation is fast improving, now many bankers also approach us, exciting about opportunities in the sector, et cetera.

We are seriously considering about the option of raising capital. So, in between, if any capital requirement is there. We have a very high capital adequacy ratio in the parent company. So, in an emergency situation, if the situation warrants, we will do that. But the capital adequacy of Asirvad itself is around 20%. So, there is enough room to raise tier 2 capital also, and now investors are available for investing there. So, to meet the target of 20% growth in FY23, actually for want of capital, we need not stall that target of growth, which is available already and in any emergency, (inaudible) (0:36:23).

- Bindu A.L.:** Interest accrued Rs. 420 crore, that is around 2 percentage of annual gold loan.
- Abhijit Tibrewal: That's 2% you said, ma'am?
- Bindu A.L.:** Yes.
- Shubhramshu Mishra:** Just one last question. I didn't follow the yield that you'd spoken about, you said 22% would be the normalized yield going forward?
- V.P. Nandakumar:** Our disbursal yield is about 21% now dispersal. And we hope to maintain over 20%.
- Moderator:** The next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.
- Shweta Daptardar:** A couple of questions. The first one is on Asirvad Microfinance. So, ma'am, you mentioned that post the removal of interest rates from the regulator, what are the current yields and what were it prior to that? And therefore, what is the leg up on the ROA, if any?
- V.P. Nandakumar:** We are and ROE of around 20%, not less than 20% of the microfinance business. So, every year, there are certain frequencies, we see such challenges here like natural calamities, et cetera, which is actually disrupting. Taking all these into account, yes, we are pricing the product around 24%, yes, for which the rationale is already published.
- Bindu A.L.:** So, in the past, the cost of borrowing was 10.3% and with margin gap, our lending rate was 20.35%. Under the new regulations our idea is to charge 24% considering this increased credit cost scenario.
- Shweta Daptardar:** And do you believe this increase in yield, the entire benefit will flow in this year? Or how is it like?
- V.P. Nandakumar:** We are disbursing around nearly Rs. 500 crore plus every month. So, yes, so there is a portfolio churn now. So, total disbursal is expected to be around Rs. 6,000 crore. The portfolio expected

in microfinance this year is around Rs. 8,000 crore. So, out of that around Rs. 6,000 crore would be the with the new yield, all the disbursals made during this year carry that pricing.

**Shweta Daptardar:** Sir, second question is on gold financing ease. Sir, I remember you mentioned last quarter and even earlier that this sort of lower rate phenomenon is going to be very temporary. But today, if I hear out your commentary, you're mentioning that you will be maintaining around 20%, 21% for quite some time now. You have answered this question even in the earlier part of the conference call, but still, sir, do you see the competitive intensity continue to flaring up and therefore, you will continue to take it on your views and therefore, the pressure on net interest margins in the stand-alone, especially on the gold loan side, will remain for a while?

**V.P. Nandakumar:** So, what I told is settling at around 21% for now and we're seeing the market also spanning out. So, a few reasons also I highlighted here. One reason is a small ticket, which is coming from the bottom of the pyramid. Their demand has come down because of the situation in the economy. The demand there is expected to revive in another 1 quarter. So, that will be an opportunity to get an increased yield in that. Then the competition is because the customers have come down because of this situation, pandemic situation, the demand has come down. So, second thing, the policymakers have decided that there should be abundant liquidity in the system which is very low. The one thing, the increase in the cost of the funds are going up 40%, rise is there all over the indicative rates and with the rising inflation it is likely to go up, et cetera. And slowly, the tightening also will have to happen. So, these are something which is expected in the near future. So, these things could reverse the trend. So, accordingly, the pricing also would be decided.

**Shweta Daptardar:** Sir, one last question from my side. If I look at your OGL loans, so there the ticket size has gone up. So, anything to read on that, because quarter-on-quarter, the increase is slightly meaningful?

**V.P. Nandakumar:** So, the OGL was high during the lockdown period because the minimal further conventional loans also have been shifted to OGL because the offices are closed. Now when all the offices are closed and transportation restored to the pre-COVID level, people would love to come to the office. So, that's why the OGL is not showing growth in the recent days.

**Shweta Daptardar:** No. What I meant was the average ticket size have actually gone up on the OGL business. So, what do we read into that?

**V.P. Nandakumar:** So, the average ticket size of a company also has gone down, business also has gone down. Correspondingly there is an increase in OGL ticket size also.

**Moderator:** The next question is from the line of Dhaval Gada from DSP.

**Dhaval Gada:** Sir, a couple of follow-ups. So, one is on gold branches. So, on the presentation, you've restated the third quarter gold branches. So, I just wanted to reconfirm is this the Asirvad branches, which now get classified under gold branches? And then the other question was on advertising and promotion expense if you could provide that for fourth quarter and the full year.

**V.P. Nandakumar:** So, the parent company, there is no increase in the branch network. In gold loan, we have opened branches in Asirvad. Because yes, there is an opportunity to take the unsecured loan up to **(inaudible) (0:44:20)** now because of the changes to regulation. So, for that, old MFI branches may not be **(inaudible)** everything is already there. So, we started in 300 places, with 300 new branches there. So, that was additional branches.

**Bindu A.L.:** As we discussed in the last quarter, Q3, we were aggressive in advertisement spend because we were not spending much in the past. And that we could get the benefit during the 2 quarters, earlier quarters. So, this quarter, we rationalized expenditure because as the brand is established, then it will be more of a recall after that. And this quarter, we have done the rationalization as guided in the Q3 call.

**Dhaval Gada:** So, ma'am, how much was the amount for 4Q?

**Bindu A.L.:** Rs. 12 crore.

**Dhaval Gada:** And for full year, it would be how much, approximately?

**Bindu A.L.:** Rs. 89 crore.

**Dhaval Gada:** And just to reconfirm, sir, you mentioned 300 branches in Asirvad on the gold loan side, correct?

**V.P. Nandakumar:** Yes.

**Dhaval Gada:** And sir, in the earlier part of the call, you had given a guidance for gold loan growth, AUM growth, if you could just reconfirm that. I thought I missed, probably, the number.

**V.P. Nandakumar:** So, in April, the growth was flat. May, we see some growth. And June onwards, so we expect the growth to pick up because by that time, we expect the lower middle class and bottom of the pyramid will become active in the rural area. So, we are seeing indication on the basis of that. What I expect is in Manappuram Finance, we expect gold loan growth to be around 10% in the year 2023.

**Dhaval Gada:** And overall, 10% in gold loan, and overall consolidated AUM expectation for '23 is?

**V.P. Nandakumar:** We expect that to grow by 15%. Some of the businesses are growing well. In non-MFI non-gold business, the disbursements are around Rs. 250 crore to Rs. 300 crore now. We hope that will pick up further.

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

**Aalok Shah:** A quick question on the standalone business here. Historically, if you look at the ROEs that we have been doing on standalone business, it's been in excess of 20% or so. What is the management stance on taking this number, which is now probably at 13%, 14%, back to 20%

level? And how far -- or how quickly should we be in those numbers on the standalone ROE side?

**V.P. Nandakumar:** This is the effect of the pandemic. The economy has gone to a standstill situation. Now we see the recovery. So, expecting a recovery, so the lockdown situation is not expected to recur. Because of that, we are expecting 10% growth there. And other businesses are expected to grow over 20%. And the asset quality also would be good. In MFI, we are expecting ROE of over 20%. So, the other businesses also which has already established a strong footing is likely to grow and report would follow. The MFI has come back, so that can help ROE definitely move to 20%.

**Aalok Shah:** I was looking more on the standalone ROE. But okay, let's me put it another way.

**V.P. Nandakumar:** I will tell you; even standalone things are improving. The yield what we realized through the last quarter was around 18.6%. So, it is expected to increase by around 150 bps to 200 bps going forward.

**Aalok Shah:** And a question here as an extension to the gold loan book. We understand that 33% of our portfolio is to loans above Rs. 2 lakh, and incrementally, we are going to land at 21%. So, is that what we will do for, say, like Rs. 2 lakh and above ticket sale loan or that book will be at a lower yield?

**V.P. Nandakumar:** Yes. That will be at a lower yield. The blended yield is what I have said to be around 21%.

**Aalok Shah:** And this 33% of book, which is to like Rs. 2 lakh and above, this number was at what percentage, probably a quarter or a year back? Just to understand the yield impact because of shift to IRAC.

**V.P. Nandakumar:** 2 lakh and above was around 35%?

**Management:** Last quarter it was 29%, and now it is 34%.

**Aalok Shah:** Sir, pre COVID?

**Management:** Pre COVID, it's 19%.

**Aalok Shah:** So, we've moved a long way from 19% pre-COVID to 29%.

**V.P. Nandakumar:** Yes.

**Aalok Shah:** Sir, can I have this number for FY '21? Sorry, that this could be probably too much for you.

**Management:** That 19 is stable in pre-COVID as well as 31 March also, 19%, 20%.

- Aalok Shah:** So, 19%, 20%, gone to 33%.
- V.P. Nandakumar:** Yes. Over 2 lakh has gone up now. Below Rs. 1 lakh have come down because of the reasons of lower demand there, this is the situation of the economy, which is expected to improve in the coming months.
- Aalok Shah:** And on the duration side, I missed that point. You said that 30% of loans are to customers with duration about 6 months. Is it right understanding?
- V.P. Nandakumar:** Yes, for six months and 5% upon 1 year and 55% 3 months.
- Aalok Shah:** So, over a period of time, we've seen this mix shifting from beyond 3 months to 6 months and 1 year. Is there some kind of a strategy that we planned?
- V.P. Nandakumar:** It is not because of strategy. Those who are under lower the LTV, they can opt over that. Six months LTV is lower, 1 year is still lower. Yes.
- Aalok Shah:** This helps my questions on the gold side. Sir, on the MFI book, I was just trying to understand that you spoke that you upped your yields by 400 basis points to something like 24%. Now when I look at the largest MFI lender, these yields are relatively much lower to us. So, at 24%, do we stand to kind of compete with the largest player in the MFI space?
- V.P. Nandakumar:** Two things are here. One for the MFI customers, more than the interstate, the service is most important. The proximity to the customer is the most important. So, if we have the people, service them, for a small ticket of such size, the customers won't go elsewhere. So, the customer loyalty would be there. Because of that, I don't think, I don't expect that we will lose customers.
- Aalok Shah:** Sir, is there a strategy in if you can share on how to kind of go out and add more customers on the MFI side? Because if I look at point-to-point numbers, they probably are flat or marginal growth Q-o-Q and Y-o-Y. So, how do they kind of look, sir.
- V.P. Nandakumar:** That was your question earlier, during the previous quarter, there was a quantum leap and the reversal segment have come down. So, the reason is we anticipated, one more view, etc and since doing bad assets. Luckily for all of us it has not happened so the previous quarters, we didn't have such idea. So, some of the disbursals have come down to around Rs. 500 crore per month around Rs. 6,000 crore annually, that's what budgeted. We said we expect a growth of 20%, 25% only. So, we are sure to get it because we are mostly targeting our own good customers. And we onboard the new customers. And whatever we have seen in the past, we have prospective filter whereby the quality customers are entering are around March.
- Aalok Shah:** If I could squeeze in a last question, that's on the accounting for NPA. What is that NPA number on the MFI portfolio? You've seen that move from 2.8% to 2.5%. And this year for that change in NPA accounting policy, that number would have been at?

- Management:** Yes. So, for new IRAC norms, what we implemented, which RBI announced in November that contribute around Rs. 20 crore of additional NPA for us. So, currently, it stands at 3.5%, and excluding that it would be 3.2%.
- Moderator:** The next question is from the line of Shreepal Doshi from Equirus.
- Shreepal Doshi:** Sir, the question was what is the revised lending rate in the MFI segment post the spread cap removal? And what's the range now?
- V.P. Nandakumar:** It is 24%.
- Shreepal Doshi:** 24%?
- V.P. Nandakumar:** 24%, right. It has been around 24%.
- Shreepal Doshi:** Earlier that would be?
- V.P. Nandakumar:** It was around 20.5%
- Shreepal Doshi:** Sir, the second question was what is the disbursement in the MFI segment for the fourth quarter?
- V.P. Nandakumar:** MFI, new revised rate lines outcome, our software has to be updated, et cetera. Now we have lending under the new regulatory regime. So, we are disbursing around Rs. 500 crore per month, and our collections are around Rs. 360 crore principal. So, the monthly net growth is expected around Rs. 150 crore.
- Shreepal Doshi:** So, the 4Q disbursement would be close to Rs. 1,500 crore, is it?
- Management:** RS. 1,126 crore.
- V.P. Nandakumar:** Yes, it is expected to be an approximately Rs. 1,800 crore annually. Around Rs. 2,000 crore growth is expected.
- Bindu A.L.:** Expected disbursement is Rs. 500 crore per month.
- V.P. Nandakumar:** 6000 crores annually and annual growth what is expected is around Rs. 1,800 crore, Rs. 2,000 crore.
- Shreepal Doshi:** Sir, just something that like we've seen some of the lenders in the MFI space operating in Assam or West Bengal, they have also seen PAR numbers coming down and the 4Q overall was a good quarter for lenders across India in the MFI space. While we have seen PAR number increasing and even our loan book has also behaved in a little different manner in terms of growth. So, what explains this difference here? And the other part was you have highlighted that you have seen the MFI business at 24%, 25% ROE. So, while if I look at the last 5 years, the ROA and ROE

has not been so well as compared to peers in this landscape. So, what gives you this comfort going ahead?

**V.P. Nandakumar:** So, the PAR is coming down. The PAR has come down. Drastically, it has come down. It has not gone up. During normal time, the company was getting an ROA of around 20% and the ROE of over 25%. So, during the periods like demon or this pandemic only, it has clocked, this is the scenario of the industry. So, the collections are doing good. And as I mentioned, during the last 4 months, we are getting a collection of 100%, receiving overdue collections also. So, the challenge here is from the restructured portfolio, there as the industry as a whole.

**Shreepal Doshi:** Sir, what percent of the restructured portfolio would be out of moratorium now?

**Management:** We have not offered any moratorium to restructured except for the month of July. So, there is no moratorium and no customer is under moratorium as of now.

**Moderator:** The next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.

**Rajiv Mehta:** Sir, firstly, what is the current minimum rate for gold loans in our branches say for a low-ticket loan of Rs. 50,000 to Rs. 1 lakh and taking a 65% LTV, what will be the minimum rate he'll be offered in our branch?

**V.P. Nandakumar:** So, the rates starts from just 10% to 24%. This is the rate. Small ticket for short term, 24%. And large ticket, it starts with 10%. We take into account of the disbursal yield on a daily basis, taking into consideration the trend of closure, etc. which is tracked by the system on a daily basis. On that basis, the disbursal yield count is around 21%. That's the blended yield.

**Rajiv Mehta:** And what is now the customers response to the now higher rates for gold loans, say, in typically urban or semi-urban branches because we stopped that 6.9% scheme in March. And now I believe the minimum rate you spoke about 10%, 12%. So, are we seeing that inquiries or footfalls have gone down in branches? Or are we seeing that loan conversions out of the incoming inquiries or footfalls that ratio coming down?

**V.P. Nandakumar:** Yes. It has come down to some extent, that's why, if the same rate is continued perhaps we would have grown by around 55% during this quarter. That was the trend then.

**Rajiv Mehta:** So, there is an impact.

**V.P. Nandakumar:** Yes. There is an impact because of that. So, that's what I told you, what you want to protect. What I believe that should be protected is a reasonable profit to the company. And I am targeting an ROE of around 20% in this business. So, rather than indulging in the price war, I thought I should settle at around 21%. That's where this has been. And there has been some realization among some of the players that they also have reached, and we expect most of them to come up to this level sooner than later.

Hopefully, the situation we are also seeing that our rates are going up. There is indication that it could go up. And there will be a tightening also. So, the one reason was easy money. Now the reverse will have to happen. So, this is the reason why we work for a higher pricing. So, whenever there is increase, we are likely to lose business, and we have lost business, new businesses. Instead of 25% growth during the quarter which I would have expected, we continued with the same pricing. It does not happen now.

**Rajiv Mehta:** And sir, in the light of the current dynamics, are we thinking of adding more customer acquisition efforts via channels since we would want to grow at 10%, 12%, even with 21% yield and given that competition is looking quite strong or solid, are we then looking at utilizing more channels or creating more channels of acquiring customers or attracting customers so that we eventually have higher inquiries and higher footfalls and then we can convert as per our growth target.

**V.P. Nandakumar:** So, what I'm expecting a reasonable profit, reasonable in the sense that I wish the standalone profit will be at an ROE of around 20%. So, I'm giving more importance to that because, as I mentioned earlier, I feel like the price war is temporary. And so it will be back, the price war will be over sooner than later. That's why I thought of taking the lead. And then the customers will come back and others are also falling in line. The customers are expected to come back.

**Rajiv Mehta:** Sir, any thoughts on brand expansion plans? I mean are we looking at it in a different light now required for growth? Or we will be again adding very limited branches?

**V.P. Nandakumar:** So, we have applied to Reserve Bank to open around 300 more branches. Our application has not been considered because it's from a gold loan company. We need to see prior information. Gold loan companies means your portfolio is over 50%. So, we have applied and the competition who are gold loan companies, they have applied. So, for some time, maybe because of the pandemic and all these things, approvals have not come and I expect the approvals to come towards second quarter, et cetera. And whatever permissions we're granted accordingly we'll offer in branches. Now I am not in a position to tell you how many branches, all depends on the RBI sanction.

**Rajiv Mehta:** And just lastly, one clarification on collection efficiency number of 99% in microfinance for fourth quarter. That includes the restructuring portfolio, right, because that is being built?

**V.P. Nandakumar:** Yes. Everything have come. The cat is out of the bag.

**Bindu A.L.:** All customers are built. We have not given much moratorium.

**Rajiv Mehta:** And this will be including the arrears, right?

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

**V.P. Nandakumar:** Yes.

**Moderator:** Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Pradeep Agrawal for closing comments.

**Pradeep Agrawal:** Thank you, Rutuja. On behalf of Phillip Capital, I would now like to thank the entire senior management team of Manappuram Finance and all the participants for joining us on the call today. Thank you and have a good day.

**V.P. Nandakumar:** Thank you. Thank you for your questions.

**Bindu A.L.:** Thank you.

**Moderator:** Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.