



“Manappuram Finance Limited Q2 FY20 Earnings Conference Call”

November 6, 2019



MANAGEMENT: **MR. V P NANDAKUMAR – MANAGING DIRECTOR & CEO**
MRS. BINDU A L – CHIEF FINANCIAL OFFICER,
MR. RAJA VAIDHYANATHAN – MANAGING DIRECTOR,
ASIRVAD MFI
MR. JEEVANDAS NARAYAN – MANAGING DIRECTOR,
MANAPPURAM HOUSING FINANCE LIMITED
MR. K SENTHIL KUMAR – HEAD, COMMERCIAL
VEHICLE FINANCE

MODERATOR: **MR. SHUBHRANSHU MISHRA – BOB CAPITAL**
MARKETS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Manappuram Finance Limited Investor Conference Call hosted by BOB Capital Markets Limited. As a reminder, all participants' 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 touch-tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shubhranshu Mishra from BOB Capital Markets. Thank you and over to you Mr. Mishra.

Shubhranshu Mishra: Good afternoon ladies and gentlemen. We have got the management of Manappuram Finance here. I will hand over the call to Mr. Salil Bawa for introduction of the management.

Salil Bawa: Good afternoon everyone. Thank you all for joining us for our Q2 FY20 Results Conference Call. Today, we have with us our Managing Director & CEO – Mr. V P Nandakumar, and Mrs. Bindu, our Chief Financial Officer. From Asirvad MFI, we have their MD, Mr. Raja Vaidhyanathan. From Manappuram Housing Finance subsidiary, we have Mr. Jeevandas Narayan who is the Managing Director and we also have Mr. Senthil Kumar – Head, Vehicle Finance. Thank you again all of you for joining us and I hand over the call to our Managing Director & CEO Mr. Nandakumar. Over to you, sir.

V P Nandakumar: Ladies and gentlemen, welcome to Manappuram Finance Q2 FY20 Conference Call. Over the last 4 quarters, India's NBFCs have been going through a turbulent phase with liquidity as a challenge. Moreover, in recent times, we have seen a sharp slowdown in the Indian economy with the key industry sectors reporting a fall in demand. On the positive side, on 20th September, Finance Minister Smt. Nirmala Sitharaman announced the single largest reduction in corporate income tax in 3 decades, which brings down India's effective corporate tax rate for domestic companies by almost 10 percentage points. Against this backdrop, I am happy to report that our Q2 and H1 performance represents continued progress along with our stated objectives of growth without sacrificing profitability. We have achieved good increase in business volumes and profitability, and we are well placed to keep up the momentum.

Key performance highlights for Q2 are as follows:

Our consolidated AUM has crossed Rs 22,500 crores. Consolidated AUM is up by 31.9% year on year and 12.3% quarter on quarter. Growth in our main business of gold loans was better than prior guidance, as gold loan AUM grew by 14% on a sequential basis and 20% on year-on-year basis. This growth was driven by a combination of increase in gold holdings that grew by 7% year on year and higher gold prices. Our average gold loan LTV is lower than last quarter at 60% against 62% for the last quarter. Much of the growth in the gold business has come from the growth in tonnage and not, as one may tend to assume, due to the increase in LTV.

We have observed that customers are not necessarily borrowing the entire 75% against the value of their gold holdings. In a scenario of consistently rising gold prices, we do get an initial pickup

in demand coming from small and marginal borrowers attracted by higher loan amount but then the higher prices soon become a new normal and growth on this account usually tapers off. We expect good growth in gold loans in the next half of the fiscal as well driven largely by growth in gold tonnage. It is currently at 72 tonnes as on 30th September 2019.

Our microfinance subsidiary, Asirvad Microfinance continued to be an industry outperformer with its AUM crossing Rs 4,700 crores, an increase of 73% year on year and 12% quarter on quarter. Growth was driven mainly by new customers as the average ticket size of loan continues to remain close to its historical level at about 23,000. Significantly, all disbursements are being made in a non-cash manner. Our diversification initiatives are going well.

India's automobile sector has borne the brunt of the economic slowdown, but our commercial vehicle finance business has performed quite well. We expect vehicle finance to be the 3rd major driver of growth for the company after gold and microfinance. Vehicle finance AUM grew by 60% year-on-year basis and GNPA was at 2.8%. Our housing loan portfolio is relatively small and has been steady in terms of asset quality. During the quarter, the Company consciously chose to reduce its on-lending portfolio that is launched to smaller NBFCs and MFIs given the stress in the macro environment.

Overall, the non-gold portfolio now accounts for 33% of total AUM and our intent is to increase this proportion to 50% overtime without losing focus on the core gold product. On the liquidity front, we have not faced any issues. We continue to receive funds from all the routes. CP rollovers are continuing.

We are getting funds from our banks and AMC partners and we raised over Rs 200 crores through NCDs in Q2. Post IL&FS, banks have even sanctioned new credit lines of over Rs 4,000 crores. We plan to diversify our liabilities base further and we are in the process of raising funds through foreign currency bonds and we continue to fundraise through retail NCD. We do not expect any funding challenge to come in the way of our growth plans. And we are comfortably placed with our ALM, which we monitor closely. We are reporting a consolidated net profit of over Rs 400 crores, which represents an increase of over 80% compared to a year ago and 50% quarter on quarter. It includes a one-time impact of about Rs 60 crores on account of recent changes in corporate tax rates and some other income. The company's consolidated net worth is over Rs 5,000 crores. The capital adequacy at the end of September 2019 is 22.6%.

Finally, as you may be aware, CRISIL has recently upgraded our credit rating to AA . We believe the upgrade is a reaffirmation of the fundamental resilience of our business model given the troubles in the wider NBFC space. We are also in the process of getting ourselves rated by global rating agencies.

And now, it is over to our CFO Mrs. Bindu for a detailed look at the numbers.

Bindu A L:

Let me take you through the earnings update for the quarter that has gone by. Our consolidated AUM for Q2 FY20 is Rs. 22,677 crores, up by 31.9% year on year and 12.3% Q-on-Q.

Consolidated profit after tax after minority interest was Rs. 402 crores grew by 49.6% Q-on-Q and 81.7% year on year. ROE on a consolidated basis was 32.9% and ROA of 7% for the quarter ended 30th September 2019. If we remove the one-time benefit of Rs. 60.15 crores due to the interest on income tax refund and the excess tax provision, then the adjusted ROE on a consolidated basis was 28% and adjusted ROA of 5.9% for the quarter ended September 2019.

Coming to the gold loan business that constitutes 66.9% of the consolidated AUM, gold loan AUM at Rs. 15,168 crores, 20.5% year on year and 14.1% Q-on-Q. Gold holdings stood at 72 tonnes at the end of September. Gold tonnage increased by 6.9% year on year and 5.4% Q-on-Q. The total number of gold loan customers stood at 25.89 lakhs. The gold loan book grew 14.1% Q-on-Q and up by 20.5% year on year at Rs. 15,168 crores. Auctions during the quarter were Rs. 39.85 crores. As you are aware, we follow the policy of making regular auctions on overdue accounts.

Our weighted average LTV stands at Rs. 2,107 per gram or 60% of the current gold price. Gold loan disbursement during the quarter at Rs. 50,296 crores compared to Rs. 26,396 crores in Q1 FY20. The online gold loan book is steady, which accounted for 43% of total gold loan.

Coming to microfinance business, AUM grew by 73.1% year on year at Rs. 4,724 crores and delivered 31.4% ROE in Q2 FY20. I am happy to inform you that Asirvad MFI is now amongst the lowest cost providers of microfinance launched in India. For Q2 FY20, the company made a profit of Rs. 66.33 crores compared to Rs. 49.42 crores reported in Q1 FY20.

In Ind-AS transition, we have provided 100% for loans due over 90 days. We provided an excess of Rs. 39.5 crores compared to RBI Prudential norms thereby following a conservative approach. 100% of disbursements made in a non-cash manner and Asirwad had 19.93 lakh customers, 1,027 branches, and 5,573 employees. We are now present in 23 states. It is now the 5th largest NBFC-MFI in the country. The company has a capital adequacy ratio of 26%.

We are seeing strong traction in vehicle finance business with AUM of Rs. 1,317 crores that is up by 7.4% Q-on-Q and up by 61.2% year on year and stable asset quality at 2.8% GNPA. Business is now carried out by 229 branches across 22 states which was 145 branches across 26 states a year ago and we are seeing early signs of successful cross-selling.

The home loan business had a total book of Rs. 568 crores which is up by 4.9% Q-on-Q and up by 26.8% year on year. It now operates from 46 branches and reported a profit of Rs 3.33 crores during Q2 FY20. We have successfully completed the retail NCD issue in the housing subsidiary.

Loan to corporates has reduced by 11% Q-on-Q to Rs. 736.4 crores. This book consists of loans to small NBFCs, MFIs, HFCs, etc. The new business has contributed 33% of the consolidated AUM and remaining 67% is gold loan. Our average cost of borrowing during the quarter decreased by 4 basis points to 9.3%. To further diversify our borrowing profile, we would

continue to raise funds through money market instruments, NCDs, terms loans from financial institutions, and overseas borrowings depending on the cost.

CRISIL has upgraded the credit rating. The upgrade is reaffirmation of the resilience of Manappuram's business model in the light of turbulence in the NBFC space. We benefited from significant operating leverage as overall OPEX has come down by 50 basis points while the AUM grew by 12.3% during this period. We had communicated to the market about significant savings in security costs a few quarters ago. We are pleased to announce that security cost has come down to Rs 12.4 crores from Rs 15.6 crores reported in Q1 FY20. We expect it to continue to drive benefit of operating leverage going forward.

Our employee cost increased by 3.2% Q-on-Q to Rs 203 crores for the quarter. Our consolidated headcount which now stood at 26,392, an increase of 407 headcounts during this quarter. There is a rent reversal of Rs. 28.22 crore due to implementation of Ind-AS 116 in this quarter. Similarly, our finance cost and depreciation has gone up by Rs 6.81 crores and Rs 19.89 crores respectively during this quarter due to Ind-AS 116. The overall number of gold loan branches stood at 3,463. Provisions and write-offs for the standalone entity during the quarter were Rs. 13.92 crores. Our gross NPA stood at 0.55% as compared to 0.71% as of Q1 FY20. Losses due to theft, only amount to 0.04% of AUM.

The company's consolidated net worth stood at Rs. 5,062 crores as of 30th September 2019. The book value per share stood at Rs. 60.03 of diversified business. The board has declared an interim dividend of 55 paise for this quarter. The capital adequacy at the end of 30th September was 22.6%. The total consolidated borrowing stood at Rs. 18,346 crores and the proportion of CPs maintained at 20.9%.

Thank you. Now the floor is open for questions.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of G Vivek from G S Investment. Please go ahead.

G Vivek: How sustainable is the growth in Gold Loan and what are the factors responsible for it? Overheating in the microfinance sector if you are facing in select pockets because there is large number of microfinance playing into the different geographies and what is more (products/for us) in that? 3) About the QIP plan for microfinance institutions which have been pending for some time, sir?

V P Nandakumar: The tonnage growth during the current year is around 7% but we get good advantage from the increase in gold price. So, the sustainable growth in tonnage is around 10% to 12% per annum.

G Vivek: How sustainable is it, sir, basically? Not more than 10% to 12% only? What have been the factors which have been responsible for the growth in gold loan?

- V P Nandakumar:** Sustainability at a growth rate of 10% to 12%. That growth is coming from rest of India other than the South. This is about the major growth driver.
- G Vivek:** Basically, the new geography expansion is helping us in giving good growth?
- V P Nandakumar:** Already we had opened branches in rest of India. Those branches are contributing. And about MFI, Mr. Raja Vaidhyanathan is there.
- Raja Vaidhyanathan:** On the MFI sector what you are saying is right. It has been overheated in certain pockets of India, in certain geographies. But Asirvad has its unique advantage. We are now, I would very confidently say, the most diversified MFI in India. We are present in 23 geographies today and no other MFI in India is present in so many states and union territories. When you say overheated, it is because of the banks aggressively now entering this sector but you know the flexibility and the speed at which a microfinance company can work is much faster than any other banks. We have not faced any sort of impact of overheating in any of the geographies. The only impact was natural calamities which is there for all the companies; like floods in Maharashtra or in Bihar or in Assam. Since our portfolio is so diversified, the impact it has is not significant overall.
- The success of a microfinance company is how well you are diversified, and we have a robust risk matrix and we are now looking at district-wise risk matrix. Even going forward, we have quite a strong model on this growth.
- G Vivek:** What about the plans for the QIP institution placement? There was a plan for microfinance, I believe.
- Management:** I would say that our net worth is very comfortable today, we are close to 800 crores, and with this net worth, we can safely move to about Rs 6,500 to Rs 7,000 crores of AUM with 18% capital adequacy. With the right pricing and right timing, we would certainly take funds from the private equity investor or from the market, but I would certainly like our Chairman to comment on that.
- V P Nandakumar:** I fully agree with that. Yes, at the right time and at the right price.
- Moderator:** The next question is from the line of Viraj Mehta from Equirus Portfolio Managers. Please go ahead.
- Viraj Mehta:** Congratulations for great set of numbers. Can you tell us if we look at the gold loan AUM per branch, AUM per branch has gone up significantly this quarter. What would be the reason for that growth?
- V P Nandakumar:** The reasons for growth is the overall growth in the portfolio. The portfolio has grown and there is not much increase in the branch count. So, the average portfolio per branch has gone up.

- Viraj Mehta:** We have not increased our branches in the last 2 years. Now that the growth looks decent in the market, can we see slightly more aggressive branch opening from our side?
- V P Nandakumar:** We are little aggressive now. This year, we have already opened around 150 new branches and another 50 more is in the offing. So, altogether, we may increase by 200 branches this year. These branches will be in places where we expect to get very good business.
- Moderator:** The next question is from the line of Shweta D from Prabhudas Lilladher. Please go ahead.
- Shweta Daptardar:** I have a couple of questions. You just mentioned that on the microfinance side, when you say you are comfortable on capital adequacy and maintain CAR of 18%, going forward, what is the growth outlook and secondly, do you believe that for the kind of growth we are putting up on the microfinance side, we are not raising money in the near term? Secondly, if I look at cost of borrowings for the past 3 quarters, it remains slightly on the elevated side of 9.3%. If you could provide the individual rates at which you have raised money, say for TLs, CPs, and NCDs? Lastly, if you could give breakup of vehicle finance portfolio as in how much has contributed from the commercial vehicles, used passenger, and two- wheelers?
- Raja Vaidhyanathan:** Let me clarify on microfinance. The capital adequacy is not 18% now. The capital adequacy today is 26%. We are saying, in order to maintain 18%, we don't have to raise capital. We can go up to Rs 7,000 crores. That's the clarification. It is not 18%, right now it is 26%. We are very comfortable because we did a rights issue sometime in March of this year. That has given us enough capital for us. We definitely can wait, and we are showing very good set of numbers. So, our valuation and pricing, we are definitely hopeful of a much better pricing once we wait. And confidently we are able to grow at the same pace without raising capital definitely for the coming few quarters.
- K Senthil Kumar:** In our vehicle finance portfolio, we have around 75% of the portfolio in commercial vehicles and around 25% in two-wheelers. In this 75% of commercial vehicles, we have almost around 88% of our portfolio is reused, around 12% is in new business. We are much focused on used HCV. So, in the used business, we have around 75% of our portfolio in HCV, around 19% to 20% in LCV, and around 5% to 6% in terms of small commercial vehicles.
- In two-wheeler business, 100% of our portfolio is on new vehicles. Not yet gone into used two-wheeler business as of now.
- Shweta Daptardar:** Sir, when you say used HCV, no market headwinds brunt on the portfolio given that HCVs facing the major headwinds?
- K Senthil Kumar:** In terms of new vehicles, definitely yes, there has been a lot of slowdown in sales of vehicles, be it HCVs or LCVs. In terms of used vehicles also, yes, there is an impact. There has been a bit of slowdown but there has not been any major slowdown in terms of used business. Markets could have been better in the last quarter Once there is a pickup in new vehicles, there will be a pickup in the demand of used vehicles also.

- Shweta Daptardar:** Lastly, on cost of borrowings.
- Bindu A L:** You are right. Q2 FY19, our cost of borrowings was at 9.30% but then immediately after the IL&FS issue, it has gone up by 50 basis points and we were able to manage at the same level. There was some immediate increase in the CP price but that was settled after 1 quarter, but then based on the rolling over from the banks slowly because of the availability, etc., there was a small change in the borrowing for bank limits. Individual, I may not be able to provide, but overall, we are able to maintain at 9.30%. And we have slightly increased our long-term borrowing from institutions, etc., like some of the transactions we did for 3 years, 5 years, etc., that of course will have an impact on the overall cost.
- Shweta Daptardar:** Was that raised at higher MCLR?
- Bindu A L:** Long term, of course, some of the money we raised for 5 years, etc., definitely the cost will be slightly above 1-year MCLR.
- Moderator:** The next question is from the line of Harsh Agrawal from Infina Finance. Please go ahead.
- Harsh Agrawal:** I just wanted to understand about the risk management practices in the MFI business largely like the number of people that we have in the collections and how do we largely do the collections and up to what buckets would be handled by the branch itself and then probably after how many days that would be moved to different collection teams altogether?
- Raja Vaidhyathan:** We have a comprehensive team which does both disbursement and collections unlike some of the microfinances which have separate teams for disbursement and collections. Normally, so far, we have been following a policy of the same team which disburses – we call them field development officers who disburse and collect. Of late, because of the rise in arrears because there is natural calamities where we ourselves give them a timeframe, defer them by a few months. We have also formed a new team. Again, all the employees – I would like to clarify – every single person is an employee of the company. We do not outsource any person for any collection. We have got close to 5,600 people now employed in our organisation and we have formed separate team called field collection officers in sensitive areas and in the areas where we have issues because of the natural calamities. Otherwise, the same person who disburses collects. That's the normal pattern we have.
- Harsh Agrawal:** The teams that were specifically formed, is it like they get into action only for 30 DPD clients?
- Raja Vaidhyathan:** Recently, we are forming a team which is going to go into action which is more than 60 days. But it is very less across India, so we are centrally operating a team from them with the help of call center.
- Harsh Agrawal:** I wanted to understand strategically the eastern India MFI business because we do have a significant presence in east India, especially West Bengal, and that is a state wherein there are

some well entrenched players already existing there. So, what is the strategy in increasing our presence in eastern India.

Raja Vaidhyanathan: As of now, we have about 11% to 12% portfolio in West Bengal particularly where it is one of the hottest markets and recently even the board has cautioned the company and we are slowing down in that area because of the exact reasons you have mentioned. We have got a more stringent credit bureau check in eastern India where not only the NBFC-MFIs, we check for when we calculate the aggregate, but we are taking the entire banking sector and the SFBs also so that we do not want to lend to anybody who has got beyond a certain amount. So, we are making sure that we do not lend to any overleveraged customers in the eastern part of India.

Harsh Agrawal: What's the average ticket size in West Bengal?

Raja Vaidhyanathan: Across India, we follow the same. Entry level is 25,000 per cycle, then we increase it to 30,000, by 5,000 each cycle.

Harsh Agrawal: You mentioned that you are getting a bit cautious on the West Bengal MFI. What exactly are the signals that you are getting that makes you cautious?

Raja Vaidhyanathan: In West Bengal, the biggest player, which is also a bank, has got one of the most aggressive stances they have taken. The guidelines which are applicable for NBFC-MFIs are not applicable to banks and SFBs, which makes them more aggressive. So, we want to be more cautious in that.

Harsh Agrawal: Last thing from my side, sir. What we are saying is that, maybe in West Bengal, there is a lot of overlanding, if that's a word that I can use, it's been done per borrower?

Raja Vaidhyanathan: You can say that. That is why all of us, when we look at, we look at our own borrowers and even when they come for a renewal, we make sure that we don't lend beyond a certain amount.

Moderator: The next question is from the line of Riddhi Shah from Antique Stock Broking. Please go ahead.

Riddhi Shah: I just need one clarification whether this tax refund of Rs 53 crores, that's part of interest income line?

Bindu A L: Other Income.

Bindu A L: You are right. That Rs 30 crores is included in Other Income.

Moderator: The next question is from the line of Anuj Jain from ValueQuest Capital. Please go ahead.

Anuj Jain: I have only one query. What were our gross yields for gold loans and microfinance loans?

Bindu A L: Gold loans yield remained stable around 25%.

Anuj Jain: And the gross yields for microfinance loans?

Raja Vaidhyanathan: The yield is around 21.2%. The yield will be different if you take quarter-on-quarter and the total yield. It is on a decreasing but the microfinance operates on the 10% margin. So, it doesn't matter.

Moderator: The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: I have 3 questions.

I just saw BSE filing about the medium-term note of \$750 million that you want to raise. I wanted to understand the arbitrage available to you in this process.

Second thing is, I wanted to know among the various business lines, how many cross-sell opportunities do you have and what kind of percentage of customers would be common between 1 or 2 business lines?

My third question is, I wanted to know about the technological spend you have on a yearly basis?

V P Nandakumar: The cross-sell opportunity is our USP. We have over 1 crore customers. These branches, other than microfinance, i.e., gold loan, vehicle finance, home finance, etc., these businesses are co-located. So, a lot of business is coming through the reference. If you look at common customers, maybe below 10%. But many of the customers to the extent of 30% to 40% are coming through the reference.

Second, about technology spend. We have not spent much. The reason is, a major portion of that is developed in-house, gold loan. Only for vehicle finance and home finance, we use. So, the technology spend has not been very aggressive, but still, we are fast evolving in technology because we have around 200 engineers with us taking care of those requirements.

Manish Bhandari: The third question was regarding the fundraising through the medium-term note.

Bindu A L: We will evaluate the costing, etc., before taking the final decision. The Board has enabled the resolution to raise \$750 million. We have recently seen transactions in the market. So, we are expecting similar kind of rates.

Manish Bhandari: Can you share the rate? I am not very familiar with this. How would you hedge yourself? Is it a fully hedged position?

V P Nandakumar: The rates we are not very sure. We have to complete our external rating process that is going on. It depends on the external rating also. It could be somewhere slightly over 10% is what we believe.

Manish Bhandari: One follow-up question from what Mr. Nandakumar said. Is there an incentive for the gold loan branch manager to cross-sell the other products?

- V P Nandakumar:** Some incentives are there. It is not a major incentive to them because in these branches, the other managers handling vehicle loan, home loan, they are also sitting. So, the manager part of the incentive goes to them.
- Moderator:** The next question is from the line of Utsav Gogirwar from Investec Capital.
- Utsav Gogirwar:** I have a few questions. Can you just help me with the LTV on gold loan book for this quarter?
- Bindu A L:** 60% of the gold price as on 30th September.
- Utsav Gogirwar:** I just want to have some more colour on this. What percentage of your book will be in, say 50% to 60% and 60% to 70% bracket?
- Bindu A L:** That I will get back to you.
- Utsav Gogirwar:** And second question is with respect to the gold loan growth. I missed your initial commentary. Can you just help me the reason behind such a strong growth in the gold loan business? Is there any weak competition which has benefited us during this quarter? Or some more colour on this, that will be helpful.
- V P Nandakumar:** The gold price has gone up, so the LTV has gone up. At the same time, the average LTV has come down by 2% from 62% to 60%. The tonnage growth during the half year is around 7% and during the quarter, it is 5%. So, major benefit has come from the LTV increase and also a portion from the tonnage growth.
- Utsav Gogirwar:** You mentioned that, going forward, you expect a tonnage growth of around 10% to 12%. Is that correct? Or is the gold loan growth target?
- V P Nandakumar:** I feel that is a sustainable growth expectation.
- Utsav Gogirwar:** But if I look at the last 4 quarters' tonnage growth, it has been around 6% to 7%. So, you expect it to increase in the coming quarters?
- V P Nandakumar:** Yeah, we expect another 3% to 5% during the current year in tonnage growth.
- Bindu A L:** Regarding the LTV, less than 60% is 22% of the book and 60% to 70% is 43% and 70% to 75% is 35%.
- Moderator:** The next question is from the line of Manvardhan Baid from Laurel Investments.
- Manvardhan Baid:** Congratulations on a very good set of numbers. My question is around the medium-term note program that we are planning. Coincidentally, one of your peers also has gone ahead and raised capital in a similar paper at approximately 6.25% dollar cost. And given the swap rates, that translates to approximately 12% to 12.5% in INR terms, which is almost 2% to 2.5%, actually

3% higher than our average cost of borrowing. I was just wondering the rationale behind such a large program that we are undertaking. Will that program bring down our cost of capital?

V P Nandakumar: Today, the bigger challenge is the liquidity for NBFCs. We were able to manage, and we want to manage it comfortably going forward also. We have some CP exposure which we want to bring it down even though without any interruptions it was available. But still, we don't want to rely on that too much. So, we want to replace that. So, what is more critical and important today is liquidity. As that is the priority and as the market is good, that is the reason why we think of raising that from the overseas markets even at a higher cost. You are absolutely right. It is 150 to 200 bps higher than our average borrowing cost.

Manvardhan Baid: But it is a very large program. You are undertaking almost Rs 5,000 crores which is close to 25% of our book presently that is outstanding. Such a large program at 200 basis points higher significantly. Is liquidity that tight anymore?

V P Nandakumar: So far, so good. But going forward, the market is not predictable. So, what we want is higher predictability with regard to liquidity.

Bindu A L: The entire \$750 million, we may not raise in one tranche. We will do in multiple tranches.

Manvardhan Baid: What is the first tranche that we are planning to do, the size of the first tranche?

V P Nandakumar: We plan to raise \$300 million maybe towards the last week of November or early December.

Manvardhan Baid: Maybe I have slightly not been able to understand this bit. When I am seeing your segmental reporting on the results side, in that, the microfinance assets are stated at approximately Rs 3,600 crores, and in our presentation, the AUM under microfinance is at Rs 4,700 crores for this quarter. Can you kindly guide me what am I not being able to understand on this front?

Bindu A L: That is on-book exposure. Actual AUM what we have given in the presentation, Rs 4,700 crores, is the assets under management and the Rs 3,600 what we have shown in the segmental reporting is the on-book exposure. The difference is the assignment transaction, i.e., securitisation.

Moderator: The next question is from the line of Shweta D from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: As far as vehicle finance portfolio is concerned, I remember you mentioning last time that the GNPA's will be restricted to around 3% odd level. How is the risk management policy shaping up there? How are the early delinquencies looking like?

K Senthil Kumar: GNPA currently is around 2.8%. That way, in comparison market, we have been holding on to our delinquencies fairly well. Yes, there has been a stress in the last quarter in terms of the early delinquencies or even the normal delinquency is increasing. There is more to do with the economy than to do anything specifically with our portfolio. Across the industry, there has been a bit of stress in the last quarter. But in terms of the risk management, we do make periodic

assessment. We do have a periodic assessment of our portfolio where we have a separate risk analytics department and we try to assess as to in terms of any geography risk or in terms of asset risk is what we try to understand and then cut down our exposures. Also, in the recent months, we have started moving towards scoring our pattern. Based on our past experience and based on data from the bureaus, we have developed a scoring pattern based on which we try to onboard our customers. When we onboard a customer, we have a fair idea as to how the customer is going to perform over a period of next 18 months, whether he needs a bit of handholding over a period of next 18 to 24 months, how would we expect him to behave is what the scorecard has started throwing to us. Probably over a period of next 6 months, we will try to develop more on a scorecard basis so that the onboarding of customers becomes probably more structured going forward.

Shweta Daptardar: Below 3% GNPA kind of a number is manageable?

K Senthil Kumar: Yes. We are at 2.8% right now, and hopefully we would like to maintain this around 2.8% to 3% going forward also.

And I guess, on your last question also, when you asked about portfolio, in terms of green shoots, I guess we have been seeing some early green shoots in the last 15-20 days, where things have started improving, at least in the rural market. Hopefully, if this carries forward, we should have a better year going forward. The next 5 months should be much better.

Shweta Daptardar: When you say green shoots and also given the fact that the environment is still sluggish, how do you decide foraying into a new geography? Is it product-based? Is it geography-based? How is the underlying assessment like?

K Senthil Kumar: If you see in the last couple of years, we have had a well-diversified geographical expansion. When we started our business, we started with selectively invest in south, then we expanded into north and now we are across the country. We are in the east also now. Except for probably a few states in Northeast and J&K, we are present across 22 states and we are present across in 229 locations.

In terms of product mix, as I said earlier, around 75% of our product mix is in commercial vehicle; rest, around 25%, is in two-wheelers; and we have a very small portfolio of farm equipments as of now. In that way, when we enter a geography, we do carry out our preliminary assessment in terms of like how has the market performed over a period of last few years and how have been the competitors' experience in those markets and we also do have interactions. We do try to look at the bureau experience of other financials or what does the bureau data throw in terms of delinquencies in terms of specific PIN codes.

For example, we have PIN codes which show red or amber. If it is a red PIN code, we don't venture into that PIN code. If it is amber, then probably we have a set of parameters based on which we finance. I wouldn't specifically say it is only on geography or on a product. It's a mix

of geography, product, and also to a certain extent the political risk which we might carry and obviously the manpower is also a very important part to play in this.

- Shweta Daptardar:** What are the PD assumptions and LGDs and how have they moved across over the year?
- K Senthil Kumar:** It's been a year. If you take LGD, we have around 40% to 42.5% is the LGD percentage we take. And if it is 90+, we assume 100% PD in terms of 90+. Probably in lower buckets, it is significantly lower.
- Shweta Daptardar:** Coming to housing finance portfolio, if I may squeeze a couple of more questions, how have the credit cost evolved in the housing finance portfolio? Also, largely, is it the self-construction portfolio? How are the disbursements shaping up there?
- Jeevandas Narayan:** The credit cost has been hovering around 1.5% to 1.8%. What we have seen is over a period of time, depending on the delinquency patterns and the NPA percentages in various ticket sizes, the credit cost plus also the delinquencies and NPAs are higher in higher ticket sizes. So, over a period of time, we have actually gradually brought down the average ticket size, both in our LAP portfolio and also in our home loan portfolio. Now it is around sub-9 lakhs, the housing loan.
- Moderator:** The next question is from the line of Meghna Luthra from Daiwa Capital.
- Meghna Luthra:** Can I just get the auction number?
- Bindu A L:** Auction during the quarter, Rs 39 crores.
- Meghna Luthra:** And just one more number, the disbursement number?
- Bindu A L:** Rs 50,000 crores.
- Meghna Luthra:** I had one more question. In the gold loan portfolio, the increase in tonnage, would that still be divided one-third each among the working capital, agri, and personal consumption?
- Management:** Yes, this is of course status. It remains the same.
- Meghna Luthra:** And just one more question. What would be the tenor of the loan?
- V P Nandakumar:** Our contract is 3 months with an option to the customer to renew any number of times.
- Moderator:** Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Mishra for his closing comments. Over to you, sir.
- Shubhranshu Mishra:** I would like to thank the management for their time this afternoon. Thank you so much. And I would also like to thank the participants for their inquisitive questions. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of BOB Capital Markets, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.