



Transcript

Conference Call of Manappuram Finance Limited

Event Date / Time : **10th August 2017, 06:00 PM IST**

MANAGEMENT:

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Jithin, moderator for this conference today. Welcome to the Manappuram Finance Limited Q1 FY18 earnings conference call hosted by Antique Stock Broking Limited. We have with us today the management from Manappuram Finance, represented by Mr. V.P. Nandakumar, MD and CEO, Mr. Kapil Krishnan, CFO and Mr. Raja Vaidyanathan, MD and CEO, Asirvad Microfinance. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. Now, I would like to hand over the floor to Mr. Digant Haria of Antique Stock Broking for opening remarks. Thank you and over to you sir.

Digant Haria: A very good evening to everyone. Firstly, apologies for the reschedule of the call and secondly, thanks everyone for joining the call. We have with us the entire management team from Manappuram to discuss the quarterly results. So, without any further ado, I will hand over the call to Mr. Nandakumar and Kapil from Manappuram. Sir, over to you sir.

Kapil Krishnan: Thank you Digant. Sincere apologies for the reschedule; it is just that we had a packed agenda today, because we had the audit committee and board together, because of that. And thank you all for joining. So, basically I will start now. Welcome to our Q1 conference call.

For the quarter ended June 2017, our consolidated AUMs stood at Rs.13380 crores, which was down 2% from the previous quarter and 2.8 % year on year. Our consolidated income from operations was Rs.833 crores, 11.7% increase year on year. Consolidated profit after tax was Rs.155.17 crores, which was a decrease of around 22% Q-on-Q and 3.2% year on year. The standalone profit stood at 187.8 crores, which was up 25.8% year on year and down 9.4% Q-on-Q. The decline in the consolidated number was mainly due to a Rs.34 crores loss reported by Asirvad Microfinance, which was caused by the higher NPAs provisioning.

Our gold holding stood at 59.4 tons, this is down marginally by 2.8% Q-on-Q and 6.3% year on year. The total number of gold loan customers was 21.08 lakhs. The gold loan book was at 10727 crores, which was down marginally 3.6% Q-on-Q and 5.4% year on year. Our auctions during the quarter was 531 crores. As you are aware, we follow the policy of making regular auctions on overdue accounts. Our weighted average LTV was Rs.1809 or 67% of the current gold price. Interest accrued stood at Rs.280 crores, which 2.6% of the gold loan AUM, compared to 2.9% a year ago. Gold loan disbursements during the quarter were Rs.12687 crores, compared to Rs.12299 crores. Our online gold loan books stood at 12.4%, compared to 11.9% in Q4.

Asirvad Microfinance had a closing AUM of Rs.1827 crores; it is a marginal 1.74% increase Q-on-Q and up 47% year on year. During the first quarter of FY18, Asirvad made a loss of Rs.34.2 crores. It made a provision of Rs.72 crores in Q1. We have been consistently following a policy of fully accounting for loans that are over 120 days overdue and 50% provisions for loans between 90 and 120 days. Our provisions that we made is 33.8 crores above the amount that is required as per the RBI policies. We had also not availed of RBI dispensation in Q4, which would have postponed the NPA recognition. 87% of the disbursements were made in the non-cash manner.

Asirvad has 12.7 lakh customers, 778 branches, 4119 employees. It is present in eighteen States and Union Territories. It is now the fifth largest NBFC, MFI in the country and has a capital adequacy of 17.5%. The home loans business has a total book of Rs.319.8 crores. It operates from thirty five branches. The commercial vehicle book stood at 343.7 crores. They operate from forty nine locations. New businesses now account for 20% of the consolidated AUM. Consolidated finance cost was Rs.258.7 crores. Our average cost of borrowings during the quarter declined 30 basis points Q-on-Q and stood at 9.4%. This is down 95 basis points year on year. Our marginal incremental cost of borrowings is 8.3%. Recently our long term debt credit rating was upgraded to AA by Bricwork rating. Our employee cost increased by 12.3% Q-on-Q to Rs.140.9 crores. The consolidated head count which now stood at 23178, which was 4.8% up Q-on-Q. There is a marginal 0.2% increase in the administrative cost to 127 crores. Depreciation cost was flat at 15.9 crores. The number of gold loan branches was same at 3293.

Provision and write off in the standalone entity were Rs.7.51 crores. Our gross NPA stood at 1.1%, compared to 2% in Q4. There was a decrease in NPA, mainly due to the recoveries that we made during the quarter. Lost assets due to theft, spurious gold etc. were 0.11% of the AUM. The company's consolidated net worth stood at 3466 crores. Book value per share was 41.16. The board has declared an interim dividend of Rs.0.5. Capital adequacy was 28.17%. Consolidated borrowings stood at 10367 crores as on June 30th.

I will now request our Promoter and Managing Director Mr. Nandakumar to share his views on our overall business.

V.P. Nandakumar: Thank you Kapil. Thank you all for joining us today to discuss our Q1 results. Our performance over this last quarter has been somewhat lukewarm compared to the recent quarters. During the last concall in May to discuss our Q4 results, you may recall I had mentioned that the momentum of growth we had achieved during the first two quarters of FY17 was not maintained in the third and fourth

quarters. We had then singled out two economy related factors to account for the slowdown. One was, of course the demonetization, which had disrupted the working capital cycle of businesses in the unorganized sector. The unorganized sector was still getting back to its feet and they would take another quarter or so before things really get back to normal. The other factor was the near drought conditions in the larger parts of Southern India, which is a very key market for us.

Today as we review our Q1 results, the fact remains that the underlying demand continues to be weak, though we are seeing some improvement in business. The consolidated profit was affected by the loss reported by our microfinance subsidiary Asirvad. As you know the MFIs in India were most affected by demonetization, both from the disruption in cash availability and the more lasting impact of the disruption to the cash economy. Asirvad reported a loss for the quarter on account of higher provisions towards doubtful loss. However, we continue to follow our policy of conservative accounting and we made provision of 34 crores over and above the amount we are required to provide as per the RBI.

Our gold loan business was also affected by the slowdown in the unorganized sector, as reflected in the decline in the AUM. However, we continue to make steady progress in online gold loans, which now accounts for 12.4% of the total gold loan books compared to 11.9% for the preceding Q4. The continuing decline in our average cost of borrowing is another positive for the company. Our average cost of borrowing now stands at 9.4%. It has come down by 30 basis points from the preceding quarter's 9.7%. And it is 97 basis points lower compared to Q1 of the previous fiscal. Our incremental cost of borrowing stands at 8.3%. Moreover, we have further improved our credit rating with a long term ratings of AA stable. Considering the recent cut in policy rates, I feel there is a good reason to look forward to even lowering borrowing cost.

In aggregate, our non-gold business such as microfinance, home and commercial loans now contribute 20% of our consolidated AUM. In our home loan subsidiary Manappuram Home Loan Finance Private Limited, we have inducted a representative in the banking industry, Mr. Jeevandas Narayan, the MD of Manappuram Home Finance. Mr. Jeevandas comes with thirty seven years of experience in banking in State Bank of India. He was last Managing Director of erstwhile State Bank of Travancore. Simultaneously, we have also inducted a new CEO who has more than twenty years of experience in the home finance industry. These two appointments bring a wealth of high level of experience to the company that should enable Manappuram Home Finance to move to a higher growth path, in the affordable housing space. Thank you. The floor is open for questions now.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, we have got the first question coming from Mr. Vivek from GF investment. Please proceed sir.

Vivek: Just wanted to know when the headwind in the microfinance sector is expected to reduce? What steps are we taking for it and what about the opportunities size in the gold loan? Is it shrinking or is it remaining as it is? Thank you.

V.P. Nandakumar: Regarding the gold loan as mentioned by Kapil, Our NPA has come down because we follow regular auctioning of overdue accounts. We didn't change the policy. We needn't take the leeway provided by the RBI, we continued with the policy. I think the next two quarters will be better for gold loan. We see an opportunity in the next two quarters. Regarding microfinance Mr. Raja Vaidyanathan, who is the founder, MD and CEO is on the line. He will be able to tell you more about that.

Raja Vaidyanathan: Good evening. Raja here. On microfinance, particularly now the industry has bounced back. All of you know that the worst is behind us. With this quarter provisioning, I think clearly we have faced whatever possible PAR or NPA in the industry in the last three quarters. So, we are in a good wicket now; the disbursements have picked up considerably and we should add to our portfolio. The first quarter, this quarter was flat, because more or less disbursements and collections were same. From July onwards the disbursements have also picked up now. You know that all of us go through a credit bureau check and those passing the credit bureau didn't get the loans and this has now again come back, which means that the borrowers are repaying their old loans. And we expect the industry, it may not grow at that rate as earlier, but definitely it is growing at a reasonably good pace.

Vivek: And what about the increasing competitive intensity in the home finance segment and we are also venturing into it? And how useful we have our existing infrastructure in catering to other segments?

V.P. Nandakumar: Yeah, in the home finance we have revamped the top management. There is demand. There is good demand that company is rated high among startups. The company is able to borrow at a lower rate compared to the similar size companies in the industry. The incremental borrowing cost for them is also around 9% now, which is lower. So, with this lower borrowing cost and good senior management team, I think it is poised for growth.

Moderator: Thank you sir. Sir, we have got our next question coming from Mr. Shiva Kumar from Unify Capital. Please proceed sir.

Shiva Kumar: Thank you for the opportunity. Sir, my first question is regarding the Asirvad Microfinance GNPA on slide 15. I see that the GNPA is 90 days plus of 6.93, while the NPAs are 0.7 basically you have taken the hit of whatever has been accumulated in the 90 plus level. Sir, just wanted to know how has been the movement in the 60 to 90 bucket over the last one quarter? What is it currently? And how has been the movement over the quarter? Thank you.

Kapil Krishnan: So, basically movement during the quarter I think it is too early to discuss right now. And we have disclosed the PAR 90. And the 60 plus is 7.7%.

Shiva Kumar: 7.7% sir?

Kapil Krishnan: Yes. So, basically the outstandings are coming down rapidly. And which is why we feel that the worst is definitely well over. And we cannot actually discuss further numbers of the current quarter, because collections are just happening all the time. And these are the June figures.

Shiva Kumar: So, basically the way I see it is 90 plus is 6.93 and 60 plus is 7.7. So, the difference is what is stuck between 60 to 90, can I say that sir?

Kapil Krishnan: Yeah, yeah. That will indicate that largely it is taken care of.

Shiva Kumar: Understood sir, very much. And sir, coming to the stickiness in the gold demand, what do you think is contributing to this stickiness in the market? Is GST to be blamed, because post demonetization, we never got to see the traction which we were able to see prior to that in the gold loan business? So, what do you think is actually affecting the demand in this particular segment?

V.P. Nandakumar: During the initial phase of demonetization, during the first three months, the cash in the branches were very low, because the currency was not available. So, we were not able to meet the cash requirement of any customers. Then we continued to follow the same policy in 90 days provisioning and maintaining a low NPA level by liquidating the NPA. We didn't change the policy. We follow a very conservative policy. So, because of that there were higher auctions during this phase. So, even though the customer acquisition continued at the same pace at the later part of the post demonetization era, the auction pulled down the growth. Now, during the last three months, we remained more or less stagnant. There was some slight growth. But, I think the growth will pick up in the coming months.

Kapil Krishnan: Sir, just one more point on the microfinance outstanding, it will be relevant to note that disbursements made post December have almost 100% collection efficiency.

Shiva Kumar: Sir and what is the year-end target for the gold loan AUM sir?

V.P. Nandakumar: So, we don't want to give any guidance during the current year. I think there are signs of improvement. So, definitely things will improve in the coming months. Already there are signs of improvement. This year I don't want to give any guidance regarding growth.

Shiva Kumar: Thank you sir.

Moderator: Thank you sir. Sir, we have got the next question coming from Mr. Parag Jariwala from White Oak Capital. Please proceed.

Parag Jariwala: So, firstly I know that there are headwinds in the industry because of GST and etc. But, quarter on quarter decline in AUM, as well as the gold held as a security has also come off. So, this was slightly more than what we are hearing on the ground, because if you look at most of the loan segments and even in the gold financing what banks and the other competitions are doing, they are not reporting such a sharp decline. So, where is the disconnect exactly?

V.P. Nandakumar: There was some decline about which we have mentioned already. What I have been maintaining in the past and now also, the gold loan, the tonnage growth will be maintained around 10% to 20% every year. I didn't want to give any guidance quarter on quarter. I hope this year also that 10% would be maintained and this is the second quarter probably. So, this is what I have been telling the market, 10% to 15% in the lateral growth. So, the AUM depends on the price of the gold. So, I don't want to comment on that. So, there was some sharp decline, the rural economy everybody knows was totally disrupted and our customers are from the bottom of the pyramid. So, they couldn't meet their obligation of repayment or etc. etc. So, we were forced to auction and this led to very higher auction. We see that the things have stabilized, which gives us confidence for growth in the coming quarters.

Parag Jariwala: But, because we have now moved to three months kind of a product that is not causing any problem in terms of growth?

V.P. Nandakumar: The three months have really helped us in several ways, even the customers, they are servicing loans during the short-term period. But, during demonetization, there might have been some difficulty for them. But, on a sustainable basis I think people will appreciate that. All customers will appreciate that.

Parag Jariwala: Okay. And lastly, on the microfinance...

V.P. Nandakumar: One thing I want to make clear, this three months is not three months, if he has remitted the full interest and also the marking to the market the new LTV he want to renew it, it can be continued for any number of months.

Parag Jariwala: Sure. And lastly just on the microfinance, do you think that this level of GNPA at around 6.9 from next quarter do you think that on microfinance we will be able to report profits?

Kapil Krishnan: Definitely. So, the collections are still underway. And we have been following a conservative practice, so that we don't have to backend the provisions. And we don't give any specific guidance on next quarter's profit. That has been the consistent policy. But, definitely you heard the NPA figures, most of the provisions we feel have been taken. But, at the same time we would not like to give a formal guidance to you. There may obviously be some more provisions. There is also likelihood of collections coming from the old book. So, these are not written off fully. Our policy is not to give specific guidance on next quarter profits.

Parag Jariwala: Okay. And have we lost any, what was the interest reversal amount and how much we have lost because of that in terms of margins, on a consol book?

Kapil Krishnan: Microfinance?

Parag Jariwala: No, no, on consol book, even on microfinance and which will get translated into the consol book as well, right?

Kapil Krishnan: Yes, so we made a provision of 72 crores during the quarter, which is around 33 crores more than RBI requirement.

Parag Jariwala: No, provision is fine. I am talking about the interest reversal, because once you account in the NPA, you will have to derecognize the income as well, right?

V.P. Nandakumar: In microfinance, it is about 6 crores for this quarter, which is on the interest on the provisions made.

Parag Jariwala: Sure, okay. Thanks.

Moderator: Thank you sir. Sir, the next question comes from Mr. Ashish Sharma from Enam Asset Management. Please proceed sir.

Ashish Sharma: Hi, thanks for the opportunity. Just on the borrowing cost number for the entity, we have seen that there is a progression in terms of improvement in the borrowing cost. So, just some color on as to, do you think there is further headroom for improvement in borrowing cost or the current 9.4% number is something, the system rates have come down? So, just some color on that. And just broadly on the gold loan business, do we see some sort of improvement in the base gold loan business improving further, because it has been little too tepid for the last couple of quarters. We were anticipating that there would be an improvement in the gold loan business, but that is not sort of happening, so just some color on that.

Kapil Krishnan: Yeah. So, the cost of borrowing marginal and incremental cost of borrowing is 8.3%. So, we will expect continuous further decline in the cost of borrowing. We recently got upgraded also in our long term rating, so things are going positive on the cost of funds side.

V.P. Nandakumar: Regarding gold loan, your question was already answered. I maintain a growth prospect of around 10% to 20% for gold loan business. These last three quarters were abnormal. But, we have cleared our books. Our NPA you must have seen is only 1%. So, we have cleared and our policy we continue to follow. So, I think the results will be available in the coming quarters. This year also I maintain the same thing the next two quarters from here I see prospects for growth.

Ashish Sharma: Okay. And given the slowdown in the microfinance business, does our target of diversifying the non loan gold portfolio to 25% now will change or because there will be less traction in the microfinance portfolio, which was the key driver for your diversification? Or, you expect the growth to resume back in the microfinance portfolio?

V.P. Nandakumar: We have three major portfolios outside gold loan. One is microfinance. The other one is home finance and the third one is commercial vehicle finance. Our commercial vehicle finance is also steadily growing. We get a good quality growth over this period. We believe that it will also grow. Home finance, I have already mentioned. We have revamped the team etc. etc., but cost of borrowings there also is coming down. I think the business will pick up. Regarding microfinance, it will grow at a pace planned. So, we feel like the worst is already over. In the coming months, there will be a reasonable growth. So we don't want to be revise earlier target of 25% coming from the non-gold. I hope it will be achieved. And more and more efforts is given to secured lending like home finance as well as commercial vehicle finance.

Ashish Sharma: And sir we were mentioning that the post December is 100% which is in the case of most of the industry also, 99-1/2% to 100%; but have you shared that number what was the deficit in terms of the cumulative deficit for the portfolio before January disbursements because that will give us the right picture in terms of what was the provision of 72 crores in what portfolio?

Raja Vaidyanathan: The total portfolio is 1827 crores. 1235 crores is from December. On that 1235 crores as I said, our collection is very close to 100%. So we have a balance of around 600 crores which there prior to December. And the provisions which we have made is basically pertaining to that portfolio. The efficiency of collection in well over 96 - 97% in that.

Ashish Sharma: Okay but what would be the cumulative deficit in terms of dues on that portfolio? Because I think for industry it is closer to 10 when I think in the largest MFI it was closer to 15%.

Raja Vaidyanathan: As I said, the our is around 12% for that in the overall thing.

Ashish Sharma: Okay sir, perfect. That will be all thank you and all the best for the next quarter sir.

Moderator: Thank you sir. I would request all the participants to restrict to two questions in the initial round. Now we have the next question coming from Mr. Viraj Mehta from Equirus PMS. Please proceed sir.

Viraj: This is Viraj from Equirus PMS. Sir I just had a couple of questions. One was on security charges; YoY we see a huge change from 3 crores to 40 crores a quarter kind of security charges. I am assuming that is pertaining only to the gold loan branches, but even if you work, on per branch basis, it turns out to be a very high number per month. Why is this number also quarter on quarter increasing? Can you just throw some light on that?

Kapil Krishnan: Yeah. Basically we had to re-instate security guards in all our branches following a few incidents which happened during the demonetization period to give confidence to our customers. That is why year on year this increase is there. This is pertaining to the gold loan branches only and the security guard costs are very high because in some of the larger branches we are putting night guards also which is why the figure looks high. But we are looking at other initiatives which can help to bring the costs down. But it is more as I said reaction to the few incidents that had happened.

Viraj: Sure. The only reason I am asking sir is that if you look at per branch it is almost coming to Rs.40,000 per month per branch? If I take 3300 branches....

Kapil Krishnan: Each guard, Night guards and some of the branches have got armed guards also and all branches have got guards, so....that is the reason.

Viraj: Okay and sir if I look at other income, is this some interest reversal during the quarter or why the other income so high this quarter....24 crores?

Kapil Krishnan: This was because we had some GST opening. The service tax input credit. We had written off earlier, because we could not avail it but now under GST regime we can avail the input credit, so we have brought it back in the books.

Viraj: So this is an on-going quarterly number which will continue?

Kapil Krishnan: No, no it is a one-time.

Viraj: Okay sir and what will be our PAR 30 number for our microfinance book?

Kapil Krishnan: It is 9.2%.

Viraj: Okay thanks a lot sir.

Kapil Krishnan: Thank you Viraj.

Moderator: Thank you sir. We have got the next question coming from Mr. Manav Shah from Arjava Partners. Please proceed sir.

Manav Shah: Thank you, my questions have been answered.

Kapil Krishnan: Okay.

Moderator: Thank you sir. The next question is coming from Mr. Jeevan from Candy Sloss. Please proceed sir.

Jeevan: I just want to understand, as you are saying in the microfinance sector, you are seeing positive tractions, recoveries are happening and the collection efficiency has gone up. So can we assume that the provisions that we have done in the last two quarters, some of it can reverse in the coming quarters?

Kapil Krishnan: Mr. Raja.

Raja Vaidyanathan: Usually we make a provision and what happens is we let the loans run to maturity. At the time of maturity the borrowers do come back and pay up the balance so that their name is removed from the credit bureau and they get a note. It is not very much but there are chances of about 10% to 15% coming back.

Jeevan: Okay thanks a lot.

Moderator: Thank you sir. We have got the next question coming from Mr. Manvardhan from Loral Advisory. Please proceed sir.

Manvardhan: I have two questions. One if you could tell me the NPA on the housing finance side of the business and secondly, the housing finance and the vehicle finance side of the business is currently of the same size where Asirvad was about two years ago. So maybe two years down the line are we going to see these businesses come to the same size as Asirvad is today?

V.P. Nandakumar: Yes, we are giving a lot of thrust in growing the secured business. Housing there is a lot of thrust and that's why we thought we should grow the business in a qualitative manner faster and that is why we brought the veterans in the business to run the business. I think it will bear fruit in the very near future. Commercial vehicle finance is being run very well. The portfolio is steadily growing. The current run rate for all commercial vehicle finance is around 30 crores...so we are steadily growing. We want to grow this business in the coming years.

Manvardhan: But do you think the pace will be similar to what we did with the microfinance or...I think size wise these businesses are the same as what microfinance was two years ago so is that the....

V.P. Nandakumar: The pace cannot be regular. Home finance business generally what we have seen, the initial years the pace is low but it will be steady, it is secured. Once it reaches a size, it achieves a growth rate of around 20% CAGR. This will take some time. Before that the percentage will be more but absolute size will not be big. Commercial vehicles, yes it will grow at this thing, not the pace Asirvad has grown though the run rate is around 30 crores, it may get further accelerated to 50 crores year end is our expectation.

Manvardhan: Okay and sir what is the NPA on the housing finance side? I noticed it is not mentioned on the slide.

Kapil Krishnan: So it is somewhere around 3% right now, the gross NPA.

Manvardhan: Okay so that is substantially higher than what this segment usually does. Any particular reason why we have this higher provision

V.P. Nandakumar: Yeah there was some collection inefficiency. Now the new management is very confident of setting it right and confident of bringing that down to 1.5% by the year end.

Moderator: Thank you sir. We have the next question coming from Mr. Rahul from Goldman Sachs. Please proceed sir.

Rahul: Hi sir thanks for the opportunity. Just a few questions on the gold loan business. I just wanted to know from you whether we are kind of seeing any impact because of the cash disbursement cap of Rs.20,000?

V.P. Nandakumar: We don't see any impact on account of that. The impact is on account of demonetization as I mentioned. So I am again repeating, the growth usually we used to get during the year will be maintained this year also. About the cash disbursal of around Rs.20,000 we have taken every step to see that cash disbursal is reduced and online is increased. We were the first to initiate digital gold loan and everything is online. This thrust for technology and online payments continue to be embarked on this gold loan.

Rahul: Okay, and so when we say online gold portfolio which is now at 12.4%, is the cash disbursement the rest of the part around 85% odd?

V.P. Nandakumar: No, no around 12% is online gold loan. Balance in many cases are transferred to the account to their bank account and not paid in cash. So the cash disbursements are steadily coming down.

Rahul: Okay just one last question. What is the proportion which would be more than one lakh in ticket size?

Kapil Krishnan: Basically around 50%

Raja Vaidyanathan: You must note that in the disbursement actually, 60% is rolled over the same day as the LTV. So these are permanent customers; the loan just continues with them for a long time. So that is the largest portion of that.

Rahul: In which case there is no actual transfer of money you are saying that happens between.

Kapil Krishnan: We just reset the LTV so that the risk is less and they pay the full interest.

Rahul: Okay got it, alright sir thank you.

Moderator: Thank you sir. Sir we have got the next question coming from Mr. Anand Bhavnani from Sameeksha Capital. Please proceed sir.

Anand Bhavnani: Sir my first question is regarding the micro-finance business. With this demonetization experience and almost 7, 8 months passed since demonetization, how has the strategy of the management changed for the business base? So are we getting a bit more aggressive that all the other players are withdrawing we should make use of the opportunity or we are getting defensive or we are going to be in business as usual? If you can elaborate on how you are thinking in terms of the microfinance business at the moment?

V.P. Nandakumar: Mr. Raja.

Raja Vaidyanathan: Yeah. The demonetization has really given us lessons in where to really expand. We have certain states in India which are more politically sensitive than other states and where the local smaller politicians play a havoc on the borrowers. So what we have done is, we have done a complete risk mapping now and internal strategy has been revised to grow more in South and Eastern belt of India. We will have the presence in Northern and Central India but it is much reduced portfolio. We will have coverage but reduced portfolio till situation changes. We find Karnataka, Maharashtra, UP and Haryana most sensitive to all this and clearly our aim is to reduce our portfolio there and consolidate our branches to be more productive. Eastern belt like Orissa, Jharkhand, West Bengal, Bihar and the North-East also where we have recently entered, we will focus on that. We will have a portfolio around 60% to 70% in south and east and balance only in the other areas. That is the revised thing we have done. This is formulated right from April and we are following it.

Anand Bhavnani: Okay. Sir my second question was regarding the disbursement cap that RBI has put for gold loans. Now, as an outsider, it seems there is a regulatory difference. Banks when they disburse, they don't have a lot of cash limits

whereas MFIs or NBFCs for gold loans have been put. So this seems a similar situation from the situation that you faced early on when the loan to value for us was at 60 and for banks was high. So any regulatory changes that you are lobbying for or requesting on that front and is there any change possible? Increase in limit or altogether removal of the limit?

V.P. Nandakumar: In the gold loan we are not pitching for any regulatory change now. I think regulation has perhaps given us already a level playing field. There is no reason why we pitch for further relaxation of regulatory attitude.

Anand Bhavnani: Okay fine sir, thank you.

Moderator: Thank you sir. Sir we have the next question coming from Mr. Baskar Chakravarthy from Smart Karma. Please proceed sir.

Baskar: Thank you for the opportunity. I wanted to know what is the home loan rate that you are charging currently for your customers?

V.P. Nandakumar: It ranges from 12.5% to around 16.5% which includes LAP part also. Our average fees currently is around 15.3%.

Baskar: How does that compare with the bank who is catering to the same customer segment?

V.P. Nandakumar: We cannot compare because we are into financing affordable housing, mostly catering to the requirement of an unorganized sector. These rates cannot be compared because we finance purchasing home by the barber, small shop keeper etc. etc. who are really unbanked now.

Moderator: Thank you sir. We have got the next question coming from Mr. Shadhar Shah from SK Analytics. Please proceed sir.

Shadhar Shah: Hello? Good evening sir. I have only one question actually. I was just seeing your press release actually for the last three quarters also I can see in your consolidated results your return ratios are steadily declining actually right from ROE has declined from 25.72 to 18.2 and your ROA has declined from 5.1 to 4.2. so my question was actually, are we...this is just due to the microfinance business or we are facing any pricing pressure due to stiff competition from other players actually?

Kapil Krishnan: Basically microfinance as we discussed has a much higher provisioning and basically growth in the gold loan business has been a bit slow for the last two, three quarters because as we have been discussing on the call the various reasons. So that is why you must also accept that the returns are very high as it is with the ROA much higher than most other players in the sector and ROE is also over 20%. Capital adequacy is very comfortable.

Shadhar Shah: Yeah but going ahead do we expect this to decline further sir?

V.P. Nandakumar: I hope it would be maintained at least during the next couple of years the ROE will be maintained.

Shadhar Shah: Okay the ROE and ROA will be maintained. Can you give a band something like between 15% to 20% it will be maintained in the next two years?

V.P. Nandakumar: Our efforts are to maintain the ROE at 20%.

Shadhar Shah: Okay thank you sir.

Moderator: Thank you sir. We have the next question coming from Mr. Nilesh from Axis Bank. Please proceed sir.

Nilesh: Good evening sir, congratulations for good results. Sir my question is regarding the auctions sir. Just to understand what amount of numbers would have been auctioned this quarter?

Kapil Krishnan: 530 crores.

Nilesh: Interest on that?

Kapil Krishnan: They are mostly in the money only which is why we do the regular auction so that we don't go out of money.

Nilesh: Okay thank you sir.

Moderator: Thank you sir. We have the next question coming from Mr. Trupti Agarwal from White Oak Capital. Please proceed.

Trupti Agarwal: Thank you for the opportunity. I just wanted to know about the operating expenses. One is on the security charges. I see a sharp increase on the security charges for the full year FY17 was 59 crores whereas in this quarter alone it is 40 crores, so I wanted to understand why is there such a sharp increase?

Kapil Krishnan: Yeah this was discussed. Basically we had to add security guards in our various branches because of few incidents that we had during the demonetization time. That is the reason for the increase.

Trupti Agarwal: So sir what do you see it for the full year because it is 40 crores for this quarter whereas 59 crores for an entire year, last year.

Kapil Krishnan: We are working on various other technology solutions which can help us save this cost but as of now we cannot give a firm date as to when those will be implemented.

Trupti Agarwal: Okay and what about the operating expenses? There was a discussion in the earlier quarter that the percentage of the operating expenses to the AUM, the target is to get 4-1/2% to 5% number but if you see, it is still at 8% this quarter. Do you think it is achievable

Kapil Krishnan: I do not think we ever mentioned 4-1/2% to 5%. We always said 7% to 8%.

Trupti Agarwal: 7% to 8% is what you feel will be the operating expenses ?

Kapil Krishnan: Yes, which is what we have been maintaining always.

Trupti Agarwal: Thank you.

Moderator: Thank you ma'am. The next question comes from Mr. Pradeep Agarwal from Dilip Capital. Please proceed sir.

Pradeep Agarwal: Hi sir. This is just a data point. One is you mentioned about interest reversal in the microfinance subsidiary but what would be that as a consolidated book? What would be that number?

Kapil Krishnan: That is not a number we usually discuss. But as you know now there is not much difference, there is not much interest reversal in the gold loan business because of shifting to the three months product.

Pradeep Agarwal: Okay sir and second on the auction side, you mentioned 531 crores is the auction amount, so if you can give the auction number in terms of tons? What would be that?

Kapil Krishnan: Around 2.6 tons.

Pradeep Agarwal: These auctions would have been average maturity or overdue of how many months?

Kapil Krishnan: Usually we like to complete the auctioning in six to seven months from the loan date.

Pradeep Agarwal: Any pending auction we have at this point in time?

Kapil Krishnan: V.P. Nandakumar: Nothing significant.

Pradeep Agarwal: Okay that's it from my side, thank you.

Moderator: Thank you sir. The next question comes from Savi Jain from 2 Point 2 Capital. Please proceed.

Savi Jain: Hello sir. My question is on your market share. Have you seen your market share loss to other gold NBFCs and bank because your competitor announced their results yesterday and they are still growing and one thing is noticed that his yields are much higher than the competitor on the gold loan segment so are you seeing a market share loss?

V.P. Nandakumar: See we will maintain the market share as I mentioned. Our auctions are higher and we didn't take any leeway which RBI has given for provisioning etc. etc., we continue with our policy of auction etc. etc., so the auctions were high. I

hope whatever has been lost out will be gained in the coming quarter. Sir you should appreciate one thing. We keep maintaining a steady yield; there are no fluctuations.

Savi Jain: Yeah but your cost of funds have been declining and you have not been passing on the benefits to the customers and now your competitor and your branches are co-located mostly at lot of area. So if a customer can get slightly percent lower interest rates at a nearby branch, will that not result in a market share loss? Because anyway for your AUM outstanding per branches also is much lower than your competitors so shouldn't you be passing on your benefits of such lower cost of funding?

V.P. Nandakumar: See gold loans are basically of a short-term in nature like a credit card borrowing. This is not very interest sensitive. Average life is very low. So unlike long-term borrowing like structured clause, these demand loans, the necessity of lowering the interest I think will not come a big issue. Another thing is that the cost of the operating as you have mentioned because of the security you mentioned also, dacoity, robbery etc. etc., already increasing. We have already introduced physical security in our branches day and night in some of the large branches, armed security also. The cost is also on one side increased. At this point we felt like no need of reducing the rate of interest. Our average contracted rate is around 22% and that can be maintained.

Savi Jain: Sir on the security cost we will face more from insurance side or requirement to claim insurance that we need to have these kind of security infrastructure?

V.P. Nandakumar: Insurance is only a last resort. Especially in India getting insured payments timely is very difficult. So what we want to ensure is that these burglaries are not repeated. We have given some extra security also in some of these branches because first of all our objective is to see that robberies are not repeated.

Savi Jain: Okay sir, thank you.

V.P. Nandakumar: Thank you.

Moderator: Thank you sir. There are no further questions sir. Now I would like to hand over the floor to Mr. Digant for closing comments.

Digant: Thanks for participating in the call and thank you to the Manappuram Finance Management for taking their time out. Thank you everyone and have a great day.

Management: Thanks everyone.

Moderator: Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.