“Manappuram Finance Limited
Q1 FY2020 Earnings Conference Call”

August 13, 2019

ANALYST:	**MR. ABHISHEK MURARKA – IIFL SECURITIES LIMITED**
MANAGEMENT:	**MR. RAJA VAIDYANATHAN – MANAGING DIRECTOR – ASIRVAD MICROFINANCE LIMITED** **MR. K. SENTHIL KUMAR – CHIEF EXECUTIVE OFFICER – VEHICLE FINANCE - MANAPPURAM FINANCE LIMITED** **MR. JEEVANDAS NARAYAN – MANAGING DIRECTOR (HOME FINANCE) - MANAPPURAM FINANCE LIMITED** **MRS. BINDU - CHIEF FINANCIAL OFFICER - MANAPPURAM FINANCE LIMITED** **MR. SALIL BAWA - HEAD OF INVESTOR RELATIONS - MANAPPURAM FINANCE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Manappuram Finance Limited Q1 FY2020 earnings conference call hosted by IIFL Securities 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 pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities. Thank you and over to you Sir!

Abhishek Murarka: Thanks, Vikram. Good evening everyone and welcome to the Q1 FY20 conference call for Manappuram Finance. We will begin with disclaimer and opening statement and then throw it open for questions.

From the management team, we have Mr. VP Nandakumar, the MD and the various business heads. So, the MD for Asirvad, Mr. Raja Vaidyanathan; the CEO for Vehicle Finance, Mr. K Senthil Kumar; the MD for Home Finance, Mr. Jeevandas Narayan; the CFO, Mrs. Bindu; and the Head of Investor Relations, Mr. Salil Bawa. We thank the management of Manappuram for giving us the opportunity to host the call and now we hand over the call to Mr. Bawa for the disclaimer and the opening statements. Thank you and over to you.

Salil Bawa: Thank you Abhishek. During the discussions we will be referring to the Q1 FY20 investor presentation uploaded to the exchange and on our website. Before we begin, I would like to state that some of the statements in today's discussion may be forward-looking in nature and may involve certain risks and uncertainty. A detailed statement in this regard is available on the results document shared with you earlier. With that I would like to now invite Mr. Nandakumar Ji to begin the proceedings of the call.

V.P. Nandakumar: Thank you, Mr. Salil Bawa. Ladies and gentlemen, welcome to Manappuram Finance Limited Q1 FY20 Conference Call. As you are aware, over the past three quarters, the Indian financial sector has been going through a phase of turbulence with liquidity as challenge. Moreover, over the last quarter there has been a perceptible slowdown in the Indian economy with key industry sectors reporting a fall in demand. Against this backdrop, I am happy to report that our Q1 performance represents a strong beginning for the current fiscal year. We have achieved good increase in business volume and profitability, and we have also crossed some significant milestones. The performance highlights for the current quarter are as follows: - 1) Our consolidated AUM has crossed Rs.20000 Crores milestone. Consolidated AUM is up by more than 20% year-on-year and nearly 4% quarter-on-quarter.

We are reporting consolidated net profit of about Rs.270 Crores, it is a 35% increase over the year ago quarter. Growth in gold loan was in line with a poor result of this prior guidance as gold AUM grew by 2.6% on a sequential basis. Growth in gold loan was driven through a combination of increase in gold holdings, which grew by 3.6% year-on-year and higher gold price. Average LTV on the gold loan book now stands at 62%. We are finding that customers are not necessarily borrowing the entire 75% against the value of their gold holding. We expect growth in gold loans to pick up substantially in Q2 driven largely by growth in tonnage. We continue to maintain annual growth guidance of 10% to 12% in gold AUM.

Our microfinance subsidiary, Asirvad Microfinance continued to be an interest-free outperformer and achieved another milestone. Its AUM crossed Rs.4000 Crores mark to close at nearly Rs.4200 Crores, a sharp increase of 72% year-on-year and 9% quarter-on-quarter. The growth was driven mainly by customer additions as average ticket size continues to remain close to historical level of 21,212 per loan. As discussed previously we are evaluating a primary fund raise of $85 million to $100 million in Asirvad and we will take a final call on this very shortly.

The internal controls at Asirvad have been tightened over the past few years and we have made significant investments in technology and the team. Our diversification in these niche issues are going well. India's automobile sector is in a midst of a slowdown a slowdown, but our commercial vehicle finance business, which has now completed four years, has performed quite strongly with low early delinquency and attractive unit economics. We expect the vehicle finance to be the third major driver of growth for the company after gold and microfinance.

Vehicle finance AUM grew by 10.1% on a Q-on-Q basis and GNPA was 2.5%. We expect GNPAs to remain below 3% on steady state basis as this book matures. Housing portfolio is 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 a launch through smaller NBFCs and the MFIs in the macro environment. Overall, non-gold AUM now stands at 34% of the total AUM and it is our intent to increase this proportion to 50% over time without losing focus on the core gold-loan products.

On the liquidity front, the company has not faced any issues. We continue to receive funds from all the routes. CP rollovers are continuing. We are getting funds from our bank and AUM department and we have recently raised $75 million from IFC. We have committed undrawn bank lines of Rs.1070 Crores to backstop stake.

We plan to diversify our liability base and are in the process of raising money from both retail NCD and foreign currency bonds. We do not expect any funding challenges to come in the way of our growth plan and are monitoring ALM closely. In terms of unit economics, we expect our spreads to sustain. There is potential for operating leverage across all businesses.

Over the last one year, our cost to asset has been declined from 8.15% to 7.8% and we believe there will be further reduction going forward. We are carrying Rs.80 Crores surplus provision on the consolidated balance sheet, as the company provides higher RBI-mandated provisions and Ind-AS for each business line. During the current quarter, the company transitioned to Ind-AS 116, which had a net positive impact of Rs.4 Crores from PBT.

Lastly, I am pleased to announce that Mr. Abhijit Sen, former CFO of Citi Asia-Pacific has joined on our Board and audit committee. The Board is proposed to be further enhanced going forward. Our company is taking several steps to further improve governance. It will share with you during the coming quarters. Thank you. Now it is over to our CFO, Bindu for a detail look at the numbers.

A. L. Bindu: Thank you Sir. For the quarter ended June 2019, our consolidated AUM stood at Rs.20186 Crores, an increase of 3.8% Q-on-Q and 21.5% year-on-year. The consolidated profit after tax after minority interest Rs.269 Crores grew by 5.2% percentage Q-on-Q and 35.3% year-on-year. ROE on a consolidated basis was 23.3% and ROA of 5.1% for quarter ended June 2019.

Our gold holdings were 68.4 tonnes as at the period end of June 30, 2019. The holding increased by 1.3% Q-on-Q and up by 3.6% year-on-year. Our total number of gold loan customers stood at Rs.34.62 lakhs. The gold loan book at Rs.13292 Crores, which is up by 2.6% Q-on-Q and up by 6.6% year-on-year.

Auctions during the quarter were Rs. 47.5 Crores. As you are aware, we follow the policy of making regular auctions on overdue accounts. Our weighted average LTV stands at Rs.1946 per gram or 61.9% of current gold price, gold loan disbursement during the quarter at Rs.26396 Crores. The online gold loan book is steady, which is accounted for 37% of total gold loan. Net yield on gold loan improved during the quarter as the company was able to successfully pass on the increase in its funding costs and reduced the rebate scheme. The overall number of gold loan branches stood at 3380. Asirvad had a closing AUM of Rs.4198 Crores, an increase of 9.3% Q-on-Q and 72.2% year-on-year. For Q1 FY20 the company made a profit of Rs.49.42 Crores compared to Rs.40.92 Crores reported in Q4 FY19.

In Ind-AS transition, we provided 100% for loans due over 90 days. We have provided Rs.27.7 Crores excess provision as compared to RBI Prudential Norms thereby following a conservative approach, 100% of disbursements were made in noncash manner, Asirvad had 18.93 lakh customers, 961 branches and 5065 employees. We are now present in 22 states and it is the fifth largest NBFC-MFI in the country. The company has a capital adequacy ratio of 26%.

Strong traction in vehicle finance business with AUM of Rs.1227 Crores, which is up by 10.1% Q-on-Q and up by 70.6% year-on-year with stable asset quality of 2.5% as of June 2019. Business is now carried out of 198 branches across 21 states, which was 141 branches across 20 states than a year ago and we are seeing early signs of successful cross-selling.

The home loan business had a total book of Rs.542 Crores, which is up by 4.4% Q-on-Q and up by 33.2% year-on-year. It operates from 35 branches. Loan to corporates has reduced by 11% Q-on-Q to Rs.827.4 Crores. This book consists of loan to small NBFCs like MFIs, HFCs, etc. The quality of this portfolio is very high, retail NBFCs with high-quality teams, strong capitalization and investor risk. We have loans concerned despite the macro environment. The new businesses contributed 34.2% of consolidated AUM and remaining 65.8% at gold loan. Average cost of borrowing during the quarter increased by 7 basis points to 9.34%. We benefited from significant operating leverage as overall opex has come down while the AUM grew by 3.8% during this period. We had communicated to the market about the significant savings in security cost a few quarters ago. We are pleased to announce that security cost has come down to Rs.15.6 Crores from Rs.35.5 Crores reported in Q1 FY19. We expect to continue to drive benefit of operating leverage going forward.

Our employee cost increased by 1.6% Q-on-Q to Rs.197 Crores for the quarter. Our consolidated headcount increased by 375 to 25985. As you are aware in line with the direction from Ministry of Corporate Affairs, we adopted Indian Accounting Standards with effect from April 1, 2018 and transitioned to Ind-AS 116 from April 1, 2019. We followed a very conservative approach in this quarter. Because of 116 adjustment there is rent reversal of Rs.30.54 Crores and this has happened because we applied Ind-AS 116 leases to all applicable lease contracts existing on April 1, 2019 using the modified retrospective method.

Similarly, our finance costs and depreciation gone up by Rs.6.18 Crores and Rs.20.33 Crores respectively during the quarter due to Ind-AS 116. There is 1.9% Q-on-Q decrease of administrative cost to Rs.147.78 Crores on a comparable basis.

Provisions and write-offs for the standalone entity during the quarter were Rs.18.58 Crores. Our gross NPA stood at 0.71% as of June 30, 2019 compared to 0.72% as of Q1 FY2019. Loss of assets due to thefts, spurious gold, etc., only amount to 0.05% of AUM. The company’s consolidated net worth stood at Rs.4715 Crores. The book value per share stood at Rs.55.9 of diversified business. The Board has declared an interim dividend of Rs.0.55 for this quarter. The capital adequacy stood at 23.25%. The total consolidated borrowing stood at Rs.16166 Crores and the proportion of CPs has come down to 19.2% from 21.5% QoQ. Thank you. The floor is open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin question and answer session. We have a first question from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

Shubhranshu Mishra: There is a difference between the ticket size for your online gold loans versus the normal gold loans, the normal ticket size is around Rs.32000 versus online gold loan, which is at around Rs.50000 so can you explain the difference?

V.P. Nandakumar: These online gold loans are used by those who are slightly higher level in the economy so because of that their average ticket size is higher.

Shubhranshu Mishra: So, they are still getting used by retail customers, however?

V.P. Nandakumar: Yes, all retail only, but the class of customers is different.

Shubhranshu Mishra: What would be your credit cost guidance for fiscal 2020 and 2021?

V.P. Nandakumar: We hope to maintain at this level.

Shubhranshu Mishra: Can I have the accrued interest for Q3, Q4 2019 and this particular quarter?

A. L. Bindu: So, it remained around 3% in Q3 and Q4 and 3.2% in Q1 of this year

Moderator: Thank you. We have next question from the line of Anitha Rangan from HSBC. Please go ahead.

Anitha Rangan: Are you able to get incremental new funding from the banking channel and avail your existing sanction facility without any difficulty because we are hearing that some market participants are facing challenge in terms of getting funding from banks?

V.P. Nandakumar: So, in my opening remarks itself I have mentioned that we did not face any challenge here maybe because of positive ALM we have in our product. We continue to get the CP rollovers and some additional funding from IFC, NABARD etc. overall, we have liquidity comfort.

A. L. Bindu: And in the investor meeting during the quarter we availed 950 Crores.

Anitha Rangan: Currently, what is the liquidity policy maintained?

V.P. Nandakumar: The liquidity policy we always maintain around 5% in the liquid assets all the time. Then our liability side is also well diversified, so we plan to raise funding from borrowing also. Yes, we hope we will be able to get overseas funding.

Moderator: Thank you. The next question is from the line of Rajeev Agrawal from Doordarshi Advisors. Please go ahead.

Rajeev Agrawal: Is there any impact in any of your businesses due to extensive flooding in different parts of the country?

V.P. Nandakumar: There have been extensive flooding, but our portfolio exposure in these areas may not exceed 2 - 3%. During flooding we have experienced in the past there could only be a lag, maybe one month, etc., because there will be flurry of activities after that because of that our customers are able to get money, so they used to repay. Last year Kerala flood as well as the Gaja cyclone, Odisha cyclone, etc., this has been the case, but our exposure this year is around 2 - 3% only.

Rajeev Agrawal: Got it. Okay. Second question is given that the gold prices are going up and when we look at your gold AUM growth and your guidance are 10% to 12% gold AUM growth so can you break it down in terms of how much will be the tonnage growth versus how much will come from the price growth for the year?

V.P. Nandakumar: We expect the tonnage growth to be around 10% this year maybe the AUM growth around 12% to 13%. The reason is with the increased LTV commensurate with the gold price the customers do not borrow. Currently our average LTV is only 62% as against the regulated cap of 75%. That means all the customers do not take the advantage only, we pay customers take the advantage. They borrow whatever money they want and only 10 - 12% customers borrow the higher LTV.

Rajeev Agrawal: Got it and if a customer is borrowing at a lower LTV, is your interest rate different for those customers versus people who are borrowing at the full 75% LTV or is it the same?

V.P. Nandakumar: No. The interest rate is the same. We offer some subsidies rebate based on their regular transaction.

Rajeev Agrawal: Got it. Now on the gold tonnage you mentioned 10% growth. I know that your competition is doing better in terms of the tonnage growth so I mean, what are some of the reasons why our tonnage growth is lower than the competition, anything that you have thought about and anything you are looking to do to improve that?

V.P. Nandakumar: First of all, we do not have any aggressive growth plan. We target a consolidated AUM growth of around 20%, which we hope we will be able to achieve and ROE of around 20%, which we hope we will be able to achieve so we do not go for an aggressive growth path because we need to manage our liquidity also. So far, we were able to have liquidity comfortably and we hope to maintain that going forward.

Rajeev Agrawal: Got it and then my last question is on the housing finance, so the GNPA there continues to be high I know in the past we have talked about bringing it down to 3%, right, any sort of outlook you can give on that business in terms of the asset quality as well as the growth of that business?

Jeevandas Narayan: In fact asset quality has been a challenge, but then there is a two-pronged approach here, one is in terms of trying to set right some of the legacy assets in terms of trying to sell the assets and bring down the assets, which are stressed. Another approach has been that we have progressively reduced the ticket prices and progressively reduced the LTVs and we also come out with the micro home loan product where the LTVs are as low as around 30% and our yield lease around 21.5% so with this combined approach we are on one hand reducing the overall LTVs on the portfolio, we are increasing the yield at the same time trying to contain the credit cost on the new portfolio so that whatever is there in terms of the legacy issues we are able to sell it over a period of time and bring it down to below 3% and we also found that interested especially in affordable where the other players also, the credit cost hinges from around 2.5% to 3.5%. This is what most of the companies are converging on who are purely into affordable segment.

V.P. Nandakumar: These are from the lending made for three years back, two years back, etc. During the last two years of lending, the credit quality remains good, but the NPA is well below 1% so the old assets, we have reprocessed many of these assets because of the liquidity is first in the economy we were not able to sell it fully we are liquidating slowly, once these are liquidated, which we hope we will be able to do it will come to somewhere around 2% towards the end of this year.

Moderator: Thank you. We have next question from the line of Omkar Kulkarni, Individual Investor. Please go ahead.

Omkar Kulkarni: What is the capital consumption for this quarter?

V.P. Nandakumar: We have a very high capital adequacy ratio; capital consumption is not too much because we have plough back the profits, so the capital adequacy level remains more or less the same.

V.P. Nandakumar: 23.2% even now.

Omkar Kulkarni: Approximately what is the consumption rate like even if you give it for a year. Last year, how much it was for the whole year?

V.P. Nandakumar: Nearly 2% reduction in the CRAR. Our intention is to bring down that to around 20% level this year then only we get the advantage of a better leverage. We want to bring it down slowly.

Omkar Kulkarni: Either there must be growth or otherwise the capital will remain unconsumed.

V.P. Nandakumar: We hope it will come down slowly to our expected target level of 20%.

Omkar Kulkarni: Otherwise, if you have pending capital then better to distribute via dividends if there is lack of higher growth.

V.P. Nandakumar: Yes, you are right.

Omkar Kulkarni: Okay and I wanted to know about the current situation the company is facing while disbursing in Kerala and likewise cities where we are facing floods and how much is the contribution to the overall revenue of the company?

V.P. Nandakumar: No. our exposure in this area, AUM exposure may not be 2%, 3% for the consolidated AUM.

Omkar Kulkarni: Okay. You are talking about Kerala state?

V.P. Nandakumar: Yes. Kerala and other places, all put together.

Omkar Kulkarni: Okay. Only 2%, 3% exposure you have.

V.P. Nandakumar: Yes, AUM exposure.

Omkar Kulkarni: Okay and then Sir other businesses which you are having, what is the likely growth for, say, next 3, 5 years, it will be around 50% of the overall?

V.P. Nandakumar: We want to achieve around 20% CAGR every year. All depends on the market conditions.

Omkar Kulkarni: Yes. But this includes the gold loan, or it excludes?

V.P. Nandakumar: No, consolidated. This is what we are aiming at, but there is a play of many conditions in the economy.

Moderator: Thank you Sir. We have next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Congratulations on a good set of numbers, Sir this one question on the growth of the microfinance business do we see a need to calibrate the growth in the MFI business because it is going very fast and it is already 20% of the overall book and secondly you had mentioned that from second quarter we will see some bit of inch up in growth for gold loan segment what was the reason for that? These are the two questions Sir.

Raja Vaidyanathan: Yes. Sir, I think he is asking about the group's strategy on MFI.

V.P. Nandakumar: Yes. The group strategy, we will allow the company to grow and to make use of the opportunities available in the business. So, with regards to our capital allocation, we have allocated our capital already. For the next growth phase, we want to tap capital from the market we have engaged Credit - Suisse for that, and we are in discussion with some of the investors. We hope that it will be closed without much delay.

Ashish Sharma: My question was basically do we need to sort of focus on bringing down the mix of MFI in the non-gold is getting a little higher. do we need to sort of calibrate the growth, is that what we are trying to do or are we saying that at this moment there is no need it is already 20% of the overall book and then on the funding part you had mentioned that you were looking at 85 million to 100 million fund raise so is it going to be a stake sale or is it going to be new money coming in?

V.P. Nandakumar: It will be the new money coming in so this will be used for further growth and for the next phase of growth, the funding expected to come in plus the accumulated profits will be enough to take care of the capital requirement.

V.P. Nandakumar: Gold also there used to be cycle. If we do not achieve growth during one quarter, we used to compensate through the growth in the other quarter so the second quarter we see some good signs of growth so we believe that things will be better.

Moderator: Thank you Sir. We have next question from the line of Parag Mehta from Edelweiss. Please go ahead.

Parag Mehta: On the core business, which is the gold business, right if you look at our growth from both on a Y-o-Y and a Q-o-Q basis, in spite of a good environment, but in gold prices have gone up and the LTV is automatically coming down our growth still has been below someone like Muthoot, which is of much larger base. I wanted to understand what is the thought process moving forward, are we going to continue to remain conservative as far as the gold business is concerned and focused primarily on the non-gold business? That is the first question. The second question is effectively on the other businesses, which is the housing finance business, the vehicle finance business, the microfinance business. I just wanted to understand: a, our exposure to the categories in each of them from a product perspective and a state perspective like in case of vehicle finance we do primarily commercial vehicles, which are the states where we have exposure to and where do you see these deals and the gross NPA going forward? Similarly on the housing finance business which are the states where we have most of the exposure to and where do you see that moving forward given the gross NPAs are right now close to 4.5% and microfinance, as someone else also highlighted, if we could get a sense as to the states where we have an exposure to primarily and how do you see that from an asset quality perspective especially in the current environment wherein there has been a series of floods and at the same time potential repayment issues in the short term?

V.P. Nandakumar: So, growth in gold loan business, the growth was less than 2%. We are able to achieve our targeted growth rate of 10 - 12% towards the year end. Regarding our capital allocation in each of these businesses, over a period our capital allocation plan is 50% of the capital will be for gold loan and another 20% gold loan will be against micro mortgages, which include affordable housing as well as the SME lending. Another 15% will be in vehicle segment, which include commercial vehicles or used passenger cars and two wheelers and 10% of our capital allocation would be for microfinance. This is our capital allocation plan. Now microfinance our capital allocation comes to over 12%. I hope with a new fund raising, capital raising there and also accumulated profit so the company will be able to grow on its own as far as the capital adequacy will be taken care of so this is our based on the capital allocation but capital in the business. Housing Finance, our presence is mostly in the West and South. The business is growing at a reasonable pace. In the last two years disbursals have been good. Some initial NPAs were there, but we do not have much worry because the NPAs are around 4.5%, but these assets are mostly self-constructed. These have been repossessed and these have been lined up for sale, but sales are happening but slowly, but once it has happened the NPA level will be coming down nearly 2%, which is expected towards the end of this year. Vehicle finance we have around 196 branches across the country. So, the disbursals are happening. We have mostly introduced commercial vehicle where the average yield is around 18% and the used cars also where the yield is more or less the same and two wheelers the yield is an around 22%. The NPA is around 2.5% and on a stable base it will be maintained around 3% so still we expect a ROE of around 3% on a sustainable basis. In terms of housing finance our incremental yield is over 15%, so we will be able to maintain ROA on a substantial basis, which will be ROA will be over 2%.

Parag Mehta: Sir, one follow-up question on the CV side, on the vehicle portfolio side if that is okay it is effectively how much of this is used versus new CV and on top of that basically what is our exposure to some of the southern states, how much does South form a part of this?

Senthil Kumar: In terms of vehicle finance, we have 70% of our book, which is in commercial vehicles, around 25% in two wheelers and 5% in used passenger cars and farm equipment that is basically tractor. If you split the commercial vehicle, we have around 85% of our book, which is in the used commercial vehicle and around 15% farms it is new commercial vehicle. The majority of the used commercial vehicles are heavy commercial vehicles. In terms of our presence we are present across the country. We are present across 21 states and across 198 locations and the South portfolio is around 40%. In terms of floods, we have a constant engagement with customers to tie over their issues, so we have not faced any issues last year also when there were large floods and this year also, I do not foresee any major issues coming across.

Parag Mehta: Understood and on the housing finance business, what is the thought process forward AUM has been broadly flat to marginal growth, it is slightly higher than where we were as far as March 2019 was concerned and the gross NPAs are 4.5% so what is the plan moving forward?

V.P. Nandakumar: As I mentioned earlier, in fact, the CAGR last year was 38% and this year also if you see the first quarter if you annualize it comes to around 15% plus. What we have done is that having realized that the game is in the ticket size is healthier and also having a strong technical vertical we have actually worked on three aspects to see that we have a sound base for future growth. One is over a period of time we have reduced the ticket sizes, which at one point of time we used to do the average ticket size is used to be much higher than around 13 lakhs to 14 lakhs it has come down to 8.42 lakhs now and in terms of LTV is also from last year it was 56% plus to 49% overall LTV so this way we have been de-risking the book. Secondly we are also going in for smaller micro home loans and as of now in fact one thing you would see that we have been growing and we have achieved a growth of 39% last year and 15% in the first quarter on annualized basis only through the existing branches that is 33 branches the two branches we have also merged and then we have rationalized, so 33 branches. So now we have identified two states that are Rajasthan and Madhya Pradesh. As of now our book is mostly in Maharashtra, Tamil Nadu, Gujarat and Karnataka followed by Kerala. These constitute about 90% of the business so we have also identified two states that are Rajasthan and Madhya Pradesh where we will be opening branches, these branches will be on a spoke model mostly located with the main parent so the initial cost outlay would be much lesser and once we establish a foothold in the micro home loan sector we will be slowly increasing the ticket sizes to around say Rs.8 lakhs, Rs.9 lakhs, Rs.10 lakhs so that is the growth plan we have. So once these things sort of paying dividends and we have followed a policy of prudently trying to grow the topline together with a sudden growth with the bottom-line as well in the sense that we do not believe in too much of expansion or a cash burn formula so this has been the plan and of course the other challenges, the macro challenges are well known for me to again reiterate.

Moderator: Thank you. We have next question from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Can you just tell me what is the average size of the HFC in that you have given loans to?

A. L. Bindu: On lending around Rs.10 Crores.

Pranav Tendulkar: No that is lending that you have done, but I want to understand what is the size of the organization that you have lend to?

V.P. Nandakumar: Yes, average size maybe around Rs.300 Crores.

Pranav Tendulkar: Do you perceive a great risk in this because typically the small organizations will be divided of liquidity if any growth related NPAs?

V.P. Nandakumar: No. We do not perceive because we are very selective. We have an exposure of around Rs.850 Crores to around 56 companies with these companies **of a particular rating** they have foreign investments also, PE investments also, they have them all. We have been reviewing their performance regularly on a monthly basis. So, all the companies are doing well, and we do not have any worry about their ability to sustain the business.

Pranav Tendulkar: What does the majority just make sure that this portfolio NBFCs or HFCs cater to, is it housing?

V.P. Nandakumar: The majority, microfinance companies they are followed by vehicle finance companies and then housing finance company.

Pranav Tendulkar: How is the risk management function structure throughout the organization, so there is HFC, there is vehicle finance and there are microfinance and gold loans?

V.P. Nandakumar: I already hinted that about the capital allocation plan and capital raising plan to individual businesses also going forward so 50% funding, you have 50% of capital allocation the medium term will be for gold loan business followed by small mortgages like affordable housing and SME, over a period of time it will consume around 20% of capital and 15% capital for vehicle finance and 10% from microfinance. This will be our capital allocation.

Pranav Tendulkar: I am asking how risk management function?

V.P. Nandakumar: Risk management function yes, we have a Chief Risk Officer. They are evaluating the enterprise groups at various levels plus macroeconomics regularly captured and Board committee also is looking into the risk, etc. Accordingly, we will fine tune our operation.

Pranav Tendulkar: This is the first time in the last 10 years when economy will probably see a growth related NPAs because previous cycle of NPAs not just overinvestment or malinvestment and this is the first time when it will be a growth-related NPA spot so I think the Board and you are seeing this cycle first time almost 4 out of your 5 lending, you are seeing the first cycle, right?

V.P. Nandakumar: I may not be, I have seen Andhra crisis. When I was a promoter and the Board of Microfinance, we have seen that.

Moderator: Thank you Sir. We have next question from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: In your opening comments you mentioned that there is a scope for a lot of operating leverage across all the businesses. So Sir in this gold loan business I understand that in the last five quarters we have successfully reduced the security costs, but where in the other businesses especially do you see this scope for operating leverage and are there scope for internal efficiencies or would growth be the only answer to this operating leverage playing out?

V.P. Nandakumar: Yes. Operating leverage comes from the operational efficiency. Operational efficiency will come through the performance. That is better utilization of infrastructure, etc., and front end increasing the productivity. So, this is how this is achieved. With gold loan we have the introspective, any increase in the portfolio will help. It will translate that into operational efficiency.

Digant Haria: Sir, my question was more around the housing business or the CV business or the MFI business because I believe in CV business, we use the gold loan branches, so we anyway do not have replication of costs there.

V.P. Nandakumar: Yes we have the increase in the business so definitely it leverages the actual infrastructure and team, but we have to bring in better efficiency here so what is needed is with the average performance per employee, but many of them are newly organized, these are steadily improving.

Digant Haria: What are the lending rates in microfinance and gold loan, the peak lending rate?

V.P. Nandakumar: Yes. Microfinance it is around 21%, slightly lower than 21%.

Digant Haria: Okay and the incremental bank funding cost for the current quarter would be like?

A. L. Bindu: 7 basis points, which increased during the quarter. Incremental borrowing costs also at similar levels, so 9.25 basis points for this quarter.

Moderator: Thank you. We have next question from the line of Aarsh Desai from Vallum Capital Advisors. Please go ahead.

Aarsh Desai: My question was related to the gold loan growth. So year-on-year probably in gold prices we would have seen a 20% growth and even if we assume that it will keep LTVs constant, shouldn't the ticket size in gold loan move up by at least 10% odd, leaving aside the 10% tonnage growth that you are talking about and I am talking about this especially because of the liquidity crunch in the economy where gold finance will become the lending of the last resort. I am trying to understand why this year it would be hard 16%, 17% sort of a growth just purely because of the rise in the gold price and the higher ticket size lending that we can do in gold loan?

V.P. Nandakumar: Even when the gold price is going up and the LTV going up, all the customers take 75%, which is the maximum LTV. Now the average LTV is 62%. Most of the people take money according to their requirement so the gold price if again moves up the LTV will further come down, so the linkage is less. You are talking about the other sources are trying down so there will be a greater scope for gold loan, so we have not experienced that so far. We are targeting a growth of 10 - 12% this year with regard to AUM somewhat a similar growth in tonnage also so we hope we can achieve that.

Aarsh Desai: Okay and my next question was can you give me the ROE profile for housing finance, vehicle finance and lending the NBFC business?

V.P. Nandakumar: ROE for vehicle finance we hope it will be around 5% this year because we have started just making profit only. Home finance is a small portfolio maybe around that towards the year end. These are our expectations. Next year a better leverage of people and technology and capital asset we will be able to do better, these are the initial phases, but steadily growing.

Aarsh Desai: What I was trying to understand is that ROE in the gold portfolio is around 19% and the ROE in the microfinance is around 25%, so how does the consolidated ROE come to around 23.1% when the housing and the vehicle finance books have such low ROE?

V.P. Nandakumar: Majority of the portfolio that is 65% is gold loan, 25% of the portfolio is microfinance so this constitutes around 90% and the vehicle finance portfolio is around 6% only, housing Finance constitutes only 2.7%.

Aarsh Desai: But gold loan, which is 60% or 65% of the portfolio is 19% ROE portfolio?

A. L. Bindu: So, the low ROE businesses have the percentage of the consolidated AUM is comparatively small and major ROE is coming from microfinance. Gold loan is 19.7%.

V.P. Nandakumar: Yes. Gold loan is 19.7%.

A. L. Bindu: And MFI is 25%.

Moderator: Thank you. We have next question from the line of Pratik Kothari from Unique Investment. Please go ahead.

Pratik Kothari: End of FY19 presentation you had mentioned in terms of business diversification company is evaluating a foray into insurance manufacturing business and we have made out some Rs.200 Crores for the same, so if you can just talk about that?

V.P. Nandakumar: No. We are preparing ourselves for the application for that. We need to recruit a senior team, which are required, we are in the process of identifying people. Hopefully towards the end of this year we will submit the application at the level 1.

Pratik Kothari: So, is that third party insurance or we will be doing our own?

V.P. Nandakumar: These are life insurance concentrating on credit life insurance.

Pratik Kothari: But we already are doing some part of it, right?

V.P. Nandakumar: Yes. We have the insurance distribution now, which is doing very well. So that is reason why we thought of entering into manufacturing make sense for us even in natural business.

Pratik Kothari: Regarding this OGL, the online gold loan. How do we calculate this or what comes under this OGL?

V.P. Nandakumar: No. By OGL, the customer can keep his gold in a branch and 75% of the market value LTV, which he can use anytime this is 24x365 days product from anywhere we can operate through his bank account, he can service a loan also any time, it is 68% now.

Pratik Kothari: Okay and Sir my last question, before FY2014-2015 you use to give out gold loans, which were of same 10, 12 months tenure and it has come down to 3 odd months now, so how has the customer profile changed over the past four, five years?

V.P. Nandakumar: Customer profile is the same.

Pratik Kothari: No, but earlier when we used to give out a loan for one year and now, we are giving it for three months?

V.P. Nandakumar: What needs to be understood here is the contract is for a period of three months so upon the expiry of the contract within another 3 months the loan has to be reset remitting whole interest and our customer has to bring the LTV to that present level so every 3 months to about 6 months there has been a reset at a new LTV if the customer wants that is the situation. The real tenure will be decided by the customer because this was purely collateral-based lending. It is not a cash flow-based lending so as a collateral value the index is 75%, we can continue lending.

Pratik Kothari: Okay. Sir, will most of the customers be resetting every three months?

V.P. Nandakumar: No. I told the average life of a gold loan is around 72 days. Large number of customers are closing the loans within the duration.

Pratik Kothari: Okay. Sir, when you say 72 days it does not include if someone has reset their loans for another two or three months?

V.P. Nandakumar: These are included.

Pratik Kothari My question is if someone resets every 72 days then that average life becomes longer for a customer. I am just trying to understand how many of the customers will be resetting their loans.

V.P. Nandakumar: See, around two third of the customers will be closing that and one third will be resetting for another three months, hardly 15% resets their time, etc.

Pratik Kothari Fair enough Sir. Thank you and all the best.

Moderator: Thank you Sir. Ladies and gentlemen, that was the last question. I now hand the conference over to:

Salil Bawa: I want to thank all of you for being there. It was truly happy to interact with all of you. I am grateful that all of you have taken time also not only based on this call, but even offline giving us your input, asking us questions and I would hope that we continue this interaction and continue to hear from you. Please do contact us or any of us in IR or otherwise and we will be very happy to get feedback from you, but also answer your queries whenever you have. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of IIFL Securities Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.