January 25, 2024

The Manager, **Listing Department,** **BSE Limited,** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai 400 001.** **BSE Scrip Code: 532636**	**The Manager,** **Listing Department,** **The National Stock Exchange of India Ltd.,** **Exchange Plaza, 5th Floor, Plot C/1, G Block,** **Bandra - Kurla Complex, Bandra (E),** **Mumbai 400 051.** **NSE Symbol: IIFL**

Sub: - Earnings conference call transcript

Dear Sir/Madam,

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and further to our earlier intimation regarding the earnings conference call for the quarter ended December 31, 2023, please find attached herewith transcript of the said earnings conference call which was held on January 18, 2024.

The same is also made available on the website of the Company i.e.

https://storage.googleapis.com/iifl-finance-storage/files/investor/financials/IIFLFinance-Earnings-18Jan-2023_Final.pdf

Further, we hereby confirm that no unpublished price sensitive information was shared or discussed during the said earnings conference call.

Kindly take the same on record and oblige.

Thanking You,

For IIFL Finance Limited

RUPAL JAIN
Digitally signed by RUPAL JAIN
Date: 2024.01.25 20:46:59 +05'30'

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Rupal Jain
Company Secretary & Compliance Officer
Email Id: csteam@iifl.com
Place: Mumbai

Encl: as above

"IIFL Finance Limited
Q3 FY24 Earnings Conference Call"

January 18, 2024

MANAGEMENT: MR. NIRMAL JAIN –MD- IIFL FINANCE LIMITED.
MR. MONU RATRA – CEO - IIFL HOME FINANCE LIMITED
MR. N. VENKATESH –MD– SAMASTA MICROFINANCE LIMITED
MR. KAPISH JAIN –CFO– IIFL FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance Limited Q3 FY24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kapish Jain, CFO, IIFL Finance Limited. Thank you and over to you, sir.

Kapish Jain: Thank you very much. Good afternoon, everybody. It's a pleasure having all of you here and wishing all of you a very, very happy new year and on that note, I would like to just update you on for the quarter three of fiscal 24.

So for the quarter, IIFL Finance at a consolidated level reported a profit after tax before non-controlling interest of INR545 crores, up 29% on a Y-o-Y basis and up 4% on a quarter-on-quarter basis. We recorded pre-provision operating profit of INR960 crores, up 28% Y-o-Y and up 4% on a Q-on-Q basis. For the quarter, our consolidated loan AUM grew by 34% on a Y-o-Y basis and 4% on a quarter-on-quarter basis at INR77,444 crores. If I further dissect the AUM and concentrate on our core products, which is driven by gold, home, microfinance and the digital loan, there we grew by around 35% Y-o-Y and 6% quarter-on-quarter to around INR74,068 crores.

This segment now comprises 96% of our total AUM and we also crossed a key milestone in our housing company of an AUM of around INR25,000 crores for the firm. Our gross NPA is below the guidance that we gave of 2%. It stands at around 1.7, a shade lower than what we reported last time.

And also our net NPA now stands at around 0.9%, which is significantly lower by around 36 basis points and 20 basis points respectively when you compare the same period last year. With the implementation of the expected credit loss under Ind AS, provision coverage on NPA stands at 151%. In line with our capital optimization strategy, and we've been consistently following that, our AUM under the assigned or the co-lending portfolio stands at around 39% of the total AUM.

And going forward, we'll see a larger share of co-lending emerging in this number. The assigned loan book stands at around INR18,648 crores, up by 17% and 1% on a Q-on-Q basis. Beside this, there are co-lending assets of around INR11,586 crores, which is smartly up by around 103% Y-o-Y and 10% on a Q-on-Q basis.

Our quarterly average cost of borrowing increased by 28 basis points Y-o-Y, in spite of the big change that you saw both in terms of MCLRs and the repo rates. And on a quarter-on-quarter basis, it is mildly flat, down by around 4% to 9.07, sorry, up by around 4 basis points. A brief update on our liquidity.

Now, during the quarter, we raised INR5,046 crores through term loans, bonds, refinance, and around INR3,976 crores was raised through direct assignment of loans. So the key highlights of the fund rate that we did in this quarter was around 7.5 billion JPY, which we raised from Mizuho

Bank through the ECB route. And we also raised funds from the U.S., from DFC for financing our affordable housing book. We also closed our first made-in public issue of NCDs in Samasta, which was subscribed by over two times. So our cash and cash equivalent and committed trade lines from banks and institutions aggregates around INR10,081 crores, which is adequate for us to meet not just our near-term liabilities, but also to fund our growth momentum coming for quarter four as well. We are positive on our ALM across every bucket and exceed the expectations on all flows around them.

And we have also, our net gain is also shared lower at around 3.3, which is in line with our capital optimization strategy. Our annualized ROE for the quarter stands at around 19.7, while the ROAs stood strong and stable at around 3.8. This all translates into a basic earnings per share for the quarter at around INR12.9, up 29% Y-o-Y and 3% on a quarter-on-a-quarter basis. From a capital position perspective, we are fairly well capitalized.

Our capital adequacy stands at around 19.6 compared to the regulatory requirement of 15%. And for the housing finance company, it's around 45.8. And for Samasta, it is also at around 24.3%. Our CRARs are well above the threshold, as I just mentioned, and which is well supported through the internal accruals and the op book as well.

With this, I come to an end of the session and now, you can open it for Q&A. And before that, I just hand it over to Nirmal.

Management: Thank you, Kapish sir.

Nirmal Jain: And I think I'll just take a couple of minutes on the macro strategy and then we can have Q&A. So, liquidity has been tight and that has pushed up interest rates a little bit. But I think the good news is that inflation is stable and interest rates seem to have peaked down. And from here, this will be trending down maybe in the later part of the year, later part of this calendar year. But on the economy, things are very good. The economy is growing very strongly.

And with the political stability in sight for the next five years, the flow of capital and the flow of money to equity is also very strong. So, we see a spate of IPOs and the capital market is in a good shape. But at the same time, with the credit demand and the business activity in the MSME sector, that we mostly cater to three different products is good.

So, affordable home loans and affordable housing, growth has been slower in the last calendar year compared to, say, luxury homes, but it looks like that things this year should improve significantly. And the demand already is showing signs of picking up. Maybe with this, probably I open the floor for Q&A and we can take up more queries there. Thank you.

Moderator: Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: Yes. Hi, sir. Good afternoon and thanks for taking up my question. So, firstly, I just want to touch upon the gold yield. We have seen a continuous rise in gold yield, especially over the last two quarters. So, what is driving that and do these yields include the entire AUM or are calculated only on an onbook basis?

Nirmal Jain: So, gold yield is on the entire AUM. And that is going back to the normal level because, as you have seen in the last two quarters, particularly the last year, last quarter and the second half of last quarter, yields were impacted by some cutthroat competition and TGF skills which competition had introduced. Also, our newer branches are in smaller locations where, you know, we have a slightly, and I will say slightly, not very significantly, better yield or better ability to price ourselves. So, I think they are getting back to the normal level and the marginal rise is because of the base which was lower last year.

Mona Khetan: Okay. So, what is a little contradicting is, on one side, you are seeing the average ticket size increasing and on the other side, typically when the ticket size is increasing, your yield should come down, but that's also increasing. So, just wanted to understand that.

Nirmal Jain: So, Mona, ticket size increase is all gold price related. So, I would say that broadly what has happened is that gold prices have gone up and for the same quantum of gold, you know, people are able to borrow a little more. And, I mean, adjusted for inflation.

So, there is always be a certain rise year after year which is more inflationary. But, other than, I mean, still our gold price ticket size at INR70,000-INR75,000 is very low.

Mona Khetan: Got it. And when we look at this 19% yield, is it for the entire nine-month period or just Q3? Because the charts are not very clear. We see both kinds of charts.

Nirmal Jain: Okay. This is for the nine months, yes.

Mona Khetan: Okay. So, from a Q3 perspective, the rise is actually more than 50 bps in that case. From Q2 to Q3, if I want to understand.

Nirmal Jain: Yes, it will be around that range, yes. Okay.

Mona Khetan: And secondly, yes.

Nirmal Jain: And also a caution that in Q4, the yield may moderate by a few basis points, you know. This again is a little peak quarter in terms of volumes and competition tends to become intense. So, what we have seen in last couple of weeks or last month or so, that again the competitive pricing pressure is coming by other gold companies also.

Mona Khetan: Sure. And secondly, you know, typically we have this step-up in yields across gold financers. So, just wanted to understand that on average, what percentage of customers typically, you know, delay payments and undergo step-up in yields in your case? And if you could also share, what's been the trend, say, pre-COVID and now in this percentage of customers? Thank you.

Nirmal Jain: So, COVID was an exceptional time period in terms of people needed a lot more loans also. So, and that is behind us. It's like almost three years old. But what you say is that the fizzle in interest and the… because people don't pay in time, that is not very significant in our case. We'll be around -- I think, you know, if you see the -- our stage wise breakup, no? So, 1 to 30, 30 to 90 for gold loan is about 15% in total.

So, those are the customers where not all, but many of them probably there can be increase in interest rate. So, if you see our presentation slide 13, so you have a stage wise breakup. In gold loan, you see that 85% of people are zero DPT, they are paying in time.

So, you won't have any increase in interest rate for them. And the remaining, again, it depends, you know, but in some cases, in that 15% remaining, we can take higher interest.

Mona Khetan: Got it, sir. That's very useful. And this 15%, was it very different pre-COVID? Not through COVID, but just wanted to understand pre-COVID?

Nirmal Jain: Again, it's, you know, a question of what kind of customers you target, what kind of products you have. So, when many competitors were targeting teaser products, then there was a tendency to increase the rate more aggressively and quicker. But, you know, then I think most industry players have realized that it doesn't work and customers basically resist, reject and they move away to deep competition.

So, the industry practices are maybe, you know, also getting aligned a little bit. I really don't have the number that what it was pre-COVID. It may be slightly higher, but not very different to my mind.

Mona Khetan: Got it, sir. Thank you. I'll come back in the queue.

Moderator: Thank you. The next question is from the line of Renish from ICICI. Please go ahead.

Renish: Yes, hi, sir. Congratulations on the good set of numbers. So, just two, three questions from my side. So, one on this, you know, the entire noise about the unsecured loans, including, let's say, sourcing via digital or fintech partners. And even our digital loans are largely, you know, sourced from these fintech partners. Plus, we do have some, I think, 2% exposure to personal loans.

Where in, regulators incrementally, you know, it's been very watchful. So, do you foresee, because of this, there can be any moderation in our AUM growth or you would like to revisit our growth assumptions in the near term?

Nirmal Jain: No, good question. And what we have done is, so we had a few partners, but now, in last quarter itself, as soon as RBI came up with this policy, we have scaled down those partners, almost like kind of discontinued with many of them. So, today, our personal portfolio is around 2%.

And last quarter, it de-grew, it did not grow actually, because whatever old loans are running down, because in the middle of the quarter, we put a break. So, it will not have any impact on our AUM growth, one. This 2%, what you are seeing, will also go down, because we are not doing incrementally personal loans.

We may do very sporadic, very, very insignificant to our existing customers, if need be. Like, suddenly, I've got a home loan customer, I've got a customer with a good track account. But, by and large, this product is discontinued for us.

So, what you are seeing right now, the portfolio 2%, which will also go down. So, a negligible impact of this on our AUM as well as yield or profitability.

Renish: And on digital loans? I mean, digital business loans?

Nirmal Jain: Yes, so digital loans, we are focusing only on business loans. Also, what we are doing is that, we started supply chain financing. So, there is a company in which our FinTech fund is invested and taken a controlling stake, and they have the software and the relationship. So, these are short duration loans, but with the dealer or with distributors or some of the companies, like the FMCG companies or automotive companies, you can tie up. So, the supply chain or the average discounting is 2 months, 3 months, or less than 6 months product.

Yield is lower, and that will basically fill the gap of whatever digital partner that we earlier had, and probably will also help us grow faster. But this will also have a moderating impact on the yield of digital loans. So, you'll see that this quarter, there's a bit of a fall, because the short duration loans are at 11% to 13%, 14%.

But they are, in a way, if the anchor dealer is like quality AA or AAA, so they are more like treasury, but you know, so you can price them competitively. So, that is how the business is going to evolve.

Renish: Got it. So, you don't foresee, even if, let's say, regulators tomorrow ask these FinTech partners to tighten their credit rules, we don't see any even AUM growth implication…

Nirmal Jain: Our contribution of FinTech partners is negligible, and we are also scaling it down. So, our strategy and philosophy has always been that we want to do credit underwriting ourselves. So, we really don't believe in the FLDG model, because you are giving FLDG only when you want your partner to take part of the risk, and that means that you are not doing the full underwriting, or you don't have access to the entire data.

So, that is, I mean, we had, to a limited extent, this kind of partnership also, but that is not what we are encouraging, and we are discontinuing. Some of the times, you can't discontinue overnight, because some of the FinTech partners are dependent, and you also have earlier portfolio that you can collect. But, strategically, we are not into that business model.

Renish: Got it.

Nirmal Jain: So, for us, even if digital partnership becomes zero, it hardly impacts me.

Renish: Got it, got it. So, I mean, just to summarize, I mean, we are just fine-tuning our model, at least as per what regulation wants. I mean, is that correct…

Nirmal Jain: I have 38,000 employees on the ground, so, and, you know, almost 4,500 branches, including all the subsidiaries. So, for us, you know, we have invested so much in people and branches, primarily because we want to source our own loans.

Renish: Got it. This is very helpful, sir. Secondly, again, if I look at the, stage-wise, product-wise break-up, surprisingly, our that -- Stage 1, is the lowest, you know, at 83 odd percent. So, just wanted to understand, I mean, why is that, and structurally, does this portfolio is actually to behave the same way, or there is some seasonality to it?

Nirmal Jain: No, actually, we have tightened our credit policies and in some of the businesses, like microfinance or whatever, we slowed down the growth, but we want to be a little more stricter on the credit underwriting standards. So, I think that is what will be reflected in the stage-wise loans.

Renish: Sorry, sir, actually, my question is for a LAP portfolio.

Nirmal Jain: LAP portfolio? Yes, yes, yes, at 83%. So, basically, we are dealing with 17% 1 plus CPT customers.

Renish: So, I just wanted to get a sense of what is happening there?

Nirmal Jain: Because if you see our loans against property, it's a very small ticket loans against property. So, loans against property is a product where you can have typically INR50,000 to INR50 crores, and still everything can be LAP and can be MSME. But our average ticket size of loans against property is about INR7.9 lakh, which is, you know, you can imagine that is less than INR10 lakh of property loans.

And they're actually, okay, this is a product where collection is also done physically. So, typically, you can have a little higher than the normal larger LAP in the Stage 1 and Stage 2, but they get collected. So, our experience of this product has been fairly good.

Renish: Got it.

Nirmal Jain: So, if you see INR7.9 lakh of LAP loans, then there will be Tier 3, Tier 4 towns, the self-occupied residential property. That is how incrementally we are doing business.

Renish: Got it. So, do you, I mean, do you see this proportion normalizing to 90 odd percent or this will continue to remain this way only?

Nirmal Jain: I think this will continue like this, if you have to maintain the yield. Because if you see our LAP yield is around, see, okay, there's always a compromise in yield. So, we are getting 18% yield, around 18%. So, you can do a LAP at 11%, 12% and have a very high quality of assets. But for our kind of yield, I think it will remain broadly in the similar range.

Renish: Got it. And sir, just, if I may, last question from my side on the microfinance yield side. So, again, you know, a regulator in his various commentary has been mentioning about MFI lending rates to be on a higher side. So, any risk we foresee, I mean, directionally MFI yield should come down or will be able to sustain at current level?

Nirmal Jain: So, maybe they'll come down by around 50 basis points in next few quarters for us. As a, you know, as a suo-moto this thing. But, you know, what is happening in MFI, there are many small MFIs who are charging even 28% and more.

And I think that should be there on the RBI's mind when they are talking about this. Because for the cost structure that is there in MFI, even many banks and their statuaries charge interest rates similar to what we are charging.

Renish: Yes, got it. Okay, sir. Thank you very much.

Nirmal Jain: We would like to say that the yield may come down by 50 basis points or next few quarters.

Renish: Got it, sir. Okay. Thank you very much, sir. And best of luck for coming quarters.

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

Shubhranshu Mishra: Sure, thanks. So, the first question is on the housing loans, given the fact that the CLSR is over. Are we expecting any kind of revamp or relaunch of CLSS with a new name or another CLSS to the current budget?

That's the first, on housing because it has had an impact on supply of affordable housing. Second is on the gold loans. If you can spell out what the top 50 branches contribute in terms of disbursement and AUM and top 100 branches. Just want to understand the concentration there in terms of disbursement as well as AUM.

Also, what sort of LTVs are we working with in gold loans in this quarter or in the last two odd quarters with the gold price going up? And my third question is on, again, harping on the digital loans, given the fact that we are doing business loans.

What sort of businesses do we select or maybe what sort of businesses do we reject? I think that would be the question. And if you reject, what would be the key reasons for rejection of those businesses? Thanks.

Nirmal Jain: So, you are saying the businesses we reject for housing loans, you are saying?

Shubhranshu Mishra: Yes, what sort of rejection parameters would we have for...

Nirmal Jain: So, maybe I think -- I'll have Monu take the housing loan questions in a minute. Maybe Monu, just, why don't you take the housing loan questions first?

Monu Ratra: So, I think your first question was on CLSS. Will it be back or not? So, as per the initial indication, it seems it should be there, but maybe in a new avatar. So, we are all expecting that it should be part of the budget, expectedly. Although, as far as we are concerned, if you can see our disbursements have been pretty stable and largely growing as we have had the distribution in place. So, I think, Shubhranshu, that was your question for CLSS?

Shubhranshu Mishra: Correct, correct.

Monu Ratra: Was there any other follow-up question on HL?

Shubhranshu Mishra: Do you see a supply-side squeeze because of the lack of CLSS?

Monu Ratra: Sorry?

Shubhranshu Mishra: Do you see a supply-side squeeze because of the lack of CLSS?

Monu Ratra: Yes, for sure, especially in the metros and Tier 1s, we do see a lack of supply because of developers not coming out with new supply. And also the fact that the mid-segment and the premium segment is doing exceptionally well. So, yes, absolutely, there has been a constraint of supply in the metros and the Tier 1s. No doubt about it.

Shubhranshu Mishra: Understood. Thanks.

Nirmal Jain: Right, coming back to your gold loan question, now, I don't have the data handy, but at least, you know, because we monitor all the branches, so I don't think there is any concentration as such. So, even if you take top 50 or 100 branches in terms of, say, they have doubled in the average AUM and I don't think it will be significantly more than that.

If you are taking 100 branches or 50 branches, then it still will be less than 5% or 10% of our total portfolio, for sure. So, there is not much -- okay, to answer your question, is there a concentration in gold loan branches? It's not significant at all.

Shubhranshu Mishra: Understood. That was helpful. And the part on LTV and because of the gold loan...

Nirmal Jain: Right. Now, LTV, as of now, is around 68%-69% or so, maybe. 75% is a statutory thing. But our LTV will be around little less than 70% at this point in time.

Shubhranshu Mishra: Which was last quarter, would have been how much?

Nirmal Jain: Something similar, maybe 1% here and there, not significantly different.

Shubhranshu Mishra: Understood. And my last question on business loans, what sort of businesses do we reject?

Nirmal Jain: What sort of businesses we reject for which product?

Shubhranshu Mishra: In business loans, you said that we largely do...

Nirmal Jain: So, okay, there is a whole lot of. So, first of all, there are many PIN codes that we reject. Then there are many businesses which are like mobile or -- so I think there is a very long list and also it varies from area to area. So, every state probably might have a different rejection list also. But typically mobile phones, restaurants and these businesses we are more careful about.

Also, because we do smaller loans, so typically we don't have jewellers as our customer segment for business loans. So, because our ticket size is smaller. So, they are mostly grocery, textile and these kind of products.

Shubhranshu Mishra: Understood. So, is it a fair assessment that these would be largely traders and not manufacturers?

Nirmal Jain: Yes, I think largely shopkeepers and traders and very few manufacturers. But there can be a few ancillary units. But bulk of it will be traders and shopkeepers.

Shubhranshu Mishra: Understood, understood. This was very helpful. I'll come back in the queue. Thanks.

Nirmal Jain: Thank you.

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

Abhijit Tibrewal: Yes, thank you. Good afternoon, everyone. So, the first one is on microfinance again. I've seen that you've calibrated your growth a little bit given that we were already growing at a very, very strong clip. So, I mean, is this, I would say sequential decline in disbursements that we've seen in this quarter a conscious strategy or how should we look at it?

Nirmal Jain: I think it's a conscious strategy to tighten the credit rules and the amount that we give. So, last quarter, as you have noticed, the sequential disbursements have fallen. But even after, I mean, so we are still growing by 10% on a quarter-by-quarter basis. So, we'll maintain this pace, actually, but this is a conscious, very thought-through strategy.

Abhijit Tibrewal: Got it. So, where are we tightening things in microfinance? Because, I mean, the ticket sizes are largely the same?

Nirmal Jain: So, what customers we reject is the key thing. So, if they, like, supposing customers have three loans or two loans or one loan and if the customers' Bureau score now or 15 days or earlier before the settlement there are a whole lot of criteria that, you know, we put in place. Venkatesh, you're joined? Venkatesh? No, sorry, I'm microfinance. So, I think the number of criteria that we are tightening I believe.

Moderator: Excuse me, sir, he's available. He's available.

Nirmal Jain: Yes, from the Bureau. So, also microfinance customers have their Bureau data. So, I think the policies you can tighten at different levels. And in different states, it works a little differently. I mean, does this answer your question?

Abhijit Tibrewal: Yes, yes, that answers my question. So, the second question I had, again, on digital loans, you've said already that we have kind of tightened standards. They stopped working with a few of the FinTech partnerships that we have. So, incrementally, we are not doing personal loans now, except as a cross-sell product to other product customers.

But, sir, I mean, will it be fair to say that, I mean, the lending that we did in the past, let's say until March '23, where our onboarding ticket sizes used to be around that 30,000, 40,000. From there, we are continuing to see flows, because if I look at it as the gross NPAs and digital loans on an absolute basis, it continues to inch up. And even if you look at the GNPA on a lagged basis, six months or one year, it is only inching up in digital loans.

Nirmal Jain: Yes, you are right, actually. So, those loans of a very small ticket size and some FinTech partners. But typically, those loans are a shorter duration. But yes, there is a flow from those loans.

Abhijit Tibrewal: Got it. And so, typically, what is the tenure of the loans? By when can that pool of loans, 30,000, 40,000 average ticket size pool run down?

Nirmal Jain: So, typically, six months to 12 months, they run down very soon. I mean, if it would run down, but maybe another quarter or so. So, I think it would run down significantly.

Abhijit Tibrewal: Got it. Perfect. And maybe my last question here is on home loans for Monu, sir. So, just wanted to understand co-lending in home loans, both in terms of, I mean, disbursements or as a percentage of the home loan AUM. I mean, has been on a declining trend for the past few quarters. Is it being done intentionally or are banks not too keen on co-lending in home loans now?

Monu Ratra: Hi, Abhijit. How are you? So, in this case, in home loans, as we saw that two things. One, we were sitting on pretty adequate capital, number one. The demand hasn't slowed down really. And also, we have this principal business criteria, which has got kicked in by NHB, which is that you have to have a minimum percentage of individual home loans on the loan book itself. So, otherwise -- so we are pretty much very well on the capital. And this principal business criteria is just keeping us on track to how much we can put it off book. So, otherwise, no other reason for us to -- we are very consistent and we see this is a long-term strategy.

Abhijit Tibrewal: Understood.

Nirmal Jain: Abhijit, just to add, what he is saying is that the HFC has three components, a very small component of construction finance and LAP and home loan. So, banks are very keen to do co-lending on home loan. But if they don't do for other products, then the criteria applies for loans on my books. And there I have to maintain the home loan percentage to remain HFC. So, that is one.

But other than that, with 45%-50% capital adequacy, there is no compulsion to do co-lending at aggressive pace. But we will still continue to do that because we have a long-term relationship and it is a part of our long-term strategy.

Kapish Jain: And there is no demand period, Abhijit, on the other side.

Abhijit Tibrewal: Yes. Okay, got it. And sir, just squeezing in one last question. Sir, I mean, we keep talking about retail products, all retail products are doing exceptionally well for you. The wholesale piece that we have in CRE, wanted to understand how are you thinking about it? While we keep doing the construction finance in the HFC, more from getting more retail home loans, but other wholesale book that you have in the standalone entity, are there any plans of running it down? I mean, whatever loans, if at all they are stressed, are there any plans of getting into some ERC transactions and disposing them off in the next 6 to 12 months?

Nirmal Jain: So, Abhijit -- okay, there are two parts to the question. One is construction finance through HFC, which will continue, but typically ticket sizes are small, maybe INR30 crores to INR50 crores. And there also, Monu's preference will be, and probably consciously he will look for developers where we can be a priority or a preferred partner to do home loans. So that dovetails into our core business of home loans. Am I right, Monu?

Monu Ratra: Absolutely. That's what we are doing.

Nirmal Jain: And secondly, coming back to the wholesale piece in NBFC, we are looking at -- so what has happened is that in last COVID period, the projects have been delayed. The projects are good, touchwood. We don't have any problem with any of the borrowers as such. So we are looking at various options. And the option may be not to transfer to ERC as such, but transfer to a different entity or sell down some of the debt, which we have with builders, we convert that to -- maybe get another builder who can take over the loan also. So it becomes like a sell of the project.

So there are certain alternatives that we are looking at where we can do a bulk reduction of these loans in the NBFC book. And that will help us restore our capital adequacy also and again, the core strategic focus will remain on the retail that way. So we are looking at some alternatives there, but it's still too early. And if we have something concrete, then obviously we'll communicate to everybody.

Abhijit Tibrewal: Understood, sir. This is very useful. Thank you very much and all the very best to you and your team.

Moderator: Thank you. The next question is from the line of Anusha Raheja from Dalal & Broacha. Please go ahead.

Anusha Raheja: Yes, thanks for taking my question and congrats on good set of numbers. So firstly on post RBI increase in the risk weightage, which entity of yours has seen the rise in the borrowing cost? I don't think it would be for home finance, but MFI and this standalone entity?

Nirmal Jain: The borrowing cost impact has been there on all the entities, but yes, on HFC less, but there is impact and this is an increase you see. So I think the impact has been there on all the entities and the interest rates have gone up a little bit, which is there in our Slide 9 -- no Slide 11, sorry -- no Slide #12, you'll see the rate increase impact.

Anusha Raheja: So how much has been the increase?

Nirmal Jain: Standalone has gone up by 12 basis points, home finance is flat actually down by 2 basis points, but what you're saying is right. So home finance is in a static, Samasta is up by 11 basis points on a quarter-over-quarter basis.

Anusha Raheja: That would be the blended yields, but incremental rate at which you borrow, how much that has been?

Nirmal Jain: Up by 50 basis points.

Anusha Raheja: Up by 50 basis points across home finance and...

Nirmal Jain: Monu, how much is the impact on incremental, any idea?

Monu Ratra: It's hardly any because we have a NHB refinance, so incrementally it's just about 20 bps, 20 to 25 bps, that's it.

Nirmal Jain: Okay. So other businesses will be 20, 25 basis points?

Kapish Jain: Because we also expanded our borrowing basket, we went and raised funds through ECBs from Mizuho Bank Japan, we were also leveraging the opportunity to raise funds through the shorter window, which was near zero, which is helping us in addressing the requirement, then see that coming on the bank borrowing, which again is now 25, 30 basis points. So in all the impact on the overall borrowing is ranging between 15, 20 basis points.

Anusha Raheja: Okay. And so...

Kapish Jain: On the incremental side.

Anusha Raheja: Yes. So do we see further rise in the borrowing cost or you expect that it will remain at this rate?

Nirmal Jain: I think that now, at least this is my personal view, but nobody can have a -- but my view is that I think interest rates seem to have peaked out. So from here, they may remain at elevated level for some time and may come down the later part of this calendar year or from the later. But I think for next few months, they remain at this level, but they won't go from here.

Kapish Jain: So we got an outlook change last month from CRISIL. Even Samasta entity, I would like to highlight that we have got a rating of AA from India rating, which is helping their ability to borrow from wider window as well and the element of shorter opportunity that we have. All this will help us in keeping our cost of borrowing under tap from an incremental perspective as well.

Nirmal Jain: So CRISIL has upgraded our outlook to an AA positive from AA stable. So these things will also -- they're helping us to make sure that we can mitigate the damage of interest rate increase in the system. And incrementally, we should look at interest rates coming down after a lag of maybe a quarter.

Anusha Raheja: Okay. And if I just observe on the asset size, I think largely whatever the increase that has happened on the borrowing cost, you have passed it on to the customers, right? So we have seen sequential rise in the lending rate as well.

So on a spread basis, I think we are up by around 10 basis point on sequential basis, right? So just one question there. How much do you feel that customers will be able to absorb it and your growth will not be impacted?

Nirmal Jain: So the current yields are fairly normal. So I think it will remain in this band, maybe 5-10 basis points up and down.. But I think that what we are seeing right now looks to me a stable scenario in terms of what customers can take for the underwriting that we want to do.

Anusha Raheja: Okay. And so broadly, is it too early to comment like a broader call, on the margins for the next two to three quarters, how do you see it?

Nirmal Jain: I see stable margins at these levels, Anusha.

Anusha Raheja: Okay. And in Gold loans, growth rate has been quite strong at around 35% in MFI. Do you see that this current rate to continue ahead as well without diluting on the asset quality side?

Nirmal Jain: You are saying microfinance or gold loans?

Anusha Raheja: Both.

Nirmal Jain: Yes, so I think this growth will continue. We don't see any -- as the economy does well and things become better, then this can become stronger. But if you want to be -- I don't see any challenge to continue this growth, let me put it this way.

Anusha Raheja: Okay. And if I just look on your asset quality, the Stage 2 assets have increased to around 4.7%, if I am not wrong. So is it more to do with the seasonal nature of the book, or how is it? Stage 3 has definitely come down from 1.8% to 1.7%.

Nirmal Jain: It's 4.2% I think this quarter. It's not gone up. It's similar. Might have come down, actually. Hello?

Anusha Raheja: Yes.

Nirmal Jain: It is 4.2%. 4.2% is our Stage 2 as you see on Slide 13. You are comparing with Stage 1 or you are comparing with last quarter?

Anusha Raheja: I am comparing Stage 2 this quarter versus last quarter. So how is that?

Nirmal Jain: Last quarter was 4.4%. This has become 4.2% this quarter.

Anusha Raheja: Okay. Broadly, how has been the asset quality performance across the segment?

Nirmal Jain: It has been very good, actually. So, asset quality is improving. We are able to maintain at a high level of quality. So Stage 1, Stage 2, there are 20 basis points here and there, but they are in the same range that we are comfortable with.

Anusha Raheja: Okay, sir. Thanks a lot.

Nirmal Jain: Thank you.

Moderator: Thank you. The next question is from the line of Devesh Kayal from Monarch AIF. Please go ahead. Mr. Kayal, I have unmuted your line. Kindly proceed.

As the current participant is not answering, we will move on to the next question which is from the line of Sanket Chheda from Dam Capital. Please go ahead.

Sanket Chheda: Yes. Hi, sir. Congrats on the good numbers. My question was on credit cost. So far, the credit cost has been a little over 2%. It has been moderating in the recent past. But as we move deeper into the normalised macro, do we expect it to come back?

Nirmal Jain: No, I think we expect it to remain in similar range. Unless some event happens that we are not -- that we can't foresee at this point in time. So our credit cost on an annualised basis should be in this range only.

Sanket Chheda: This 2% range?

Nirmal Jain: Around 2%, yes.

Sanket Chheda: Okay. And in the last two and half, three years, we have almost tripled our housing branches and also there is about 50% increase in the gold branches as well. So from here on, do we see some moderation in the branch expansion and what will be the number of branches we will look to add on an annual basis? And if it moderates, do we see a possibility of some operating leverage taking in, in FY'25-'26?

Nirmal Jain: Yes. So, in housing, for sure, there is a pause kind of a thing. Gold has slowed down but will continue to set up some new branches. In microfinance also, when there are larger branches, we split them into two. But to put everything together, the pace will slow down and will moderate. And the operating leverage impact also should be now in the next few quarters, we should see that.

In the last quarter, we stepped up -- and maybe in this financial year, we have stepped up our advertisement and marketing campaign and that has impacted our cost to income. But going forward, I think we should see that impact coming in the operating leverage also.

Sanket Chheda: Perfect. And last question from my side is that our Stage 2 on gold is higher. It has been high in the previous as well. It comes down materially in Q4 along with the sharp growth also. Now this time, Q3 usually is seasonally weak. But do we expect a bounce back in Q4 on growth also and moderation on Stage 2 as far as gold loans are concerned?

Nirmal Jain: Yes. Growth bounce back we should see in Q4. The gold loan customers, typically, they are in touch with our branch people and they also know that if they pay back by 90 days, then company is okay with it because it's not NPA. So, generally, behaviourally, many gold loan small customers, they let it run for 30 days, 60 days, 90 days and they just pay it just before time.

So some amount of skew in terms of Stage 1, Stage 2, Stage 3 in gold loans will be there. I don't -- maybe they will continue in this quarter also. There won't be much difference because as long as you have a gold collateral fully covered, branches are also not pushing customers too much to pay or liquidate if the cost is 60 days. So, obviously, it becomes much stronger and tighter follow-up and control between 60 to 90 days.

Sanket Chheda: Sure, sir. Yes. I was talking about the trend. Usually, by Q3, we have 8% to 10% in Q2 and Q4, it falls to maybe 5%-6%. So, that is a seasonal fall, whether it will happen.

Nirmal Jain: Yes, I think so. Maybe what you're saying is right, that Q4 there can be a little moderation in this.

Sanket Chheda: Perfect. Yes, those were the questions from me. Thanks a lot.

Moderator: Thank you. The next question is from the line of Jeet from Pinpoint Asset Management. Please go ahead.

Jeet: Hi, sir. Congratulations on a great quarter. My first question is on the financials for the standalone entity, which is given later in the presentation. So, in the standalone entity, we've seen good growth across gold and digital loans. Gold loans have, in fact, seen an increase in yields. But if I look at the interest income, that's actually declined 7% in Q-o-Q. And the net interest income is declining quite a bit on a Q-o-Q basis. So, if you could just explain that progression, please?

Nirmal Jain: So, in gold loans, in particular, what has happened is that what we were doing earlier, assignment, now that assignment used to have upfront income as per Ind AS accounting. And we are moving towards co-lending. In co-lending, income is accrued consistently. So, the incremental, what last year we had assignment, and what we have, so the assignment is moving to co-lending and we see that the upfront income, which comes as a part of does not fund-based income, that goes down significantly.

Secondly, we have taken fair value based on CRISIL model, a certain reduction in our, in the valuations of the AIF units. And that also is reflected in the fair value decline. So, these are the things that are impacting the income that you are seeing.

Jeet: Okay.

Nirmal Jain: But then the profitability has gone down because this has also been coupled with our increased spend on the branding budget and advertisement budget.

Jeet: Right. But this assignment income which is upfronted, does that get reflected in the interest income line item or does it get reflected in the non-fund based income?

Nirmal Jain: So it's interested in the interest income line item and it’s not the, from the front end income.

Jeet: Okay, understood. And, and more on a strategic level, what, what are you thinking behind going more towards co-lending? Do you have some assignment or any special agreement for that?

Nirmal Jain: You know, co-lending is a very stable model because if you do assignment is more transaction based. you bundle asset, every quarter you go to the bank, they negotiate, they check the model, they get the reading done and they do it. Co-lending is simultaneous. So, in a way, both banks and the partners, they are dependent on each other and over a period of time you have a stronger relationship. So, and co-lending happens at origination. The assignment can happen only after assets are seasoned for 30, sorry, 90 or 180 days depending on the tenure.

So, co-lending, to my mind, so, okay, we want to have a mix of it, but co-lending still will become a little more, I mean, a larger on dominant part because it's a long-term relationship, every day it happens, so, you are fairly comfortable with that.

Jeet: Okay, understood, very clear, sir. Thank you so much.

Nirmal Jain: Thank you.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: Thank you, sir for the opportunity. I have three set of questions. Number one, you mentioned earlier that the margins are looking stable visibly going forward. But what reinforces your confidence given the fact that there is recalibration on MFI portfolio, digital loans are being clamped down due to regulatory forbearance, and also affordable disbursements are declining. So, which are the vectors that you believe will drive the stability in margins? That is number one.

Number two, so, admittedly there, the supply shocks abstain on affordable housing finance side, right? So, can you just throw light upon how are we pairing on productivity metrics there in light of, presumably, the inquiries might have come down or the per files that we handle for months, what is the status there?

And thirdly, you mentioned that on the microfinance business side, there will be recalibration on ease, right? I mean, you also mentioned that RBI might come hard probably on smaller players with higher interest rates on 28% not. But then, still, we are sort of recalibrating both growth and ease. So, are we coming from the fact that we are seeing some systemic risk building up, say, over-leveraging of customers?

You also quoted an example wherein, somebody might be having a home loan or such. Are we seeing that or maybe you also sense that somewhere due to aggression led by tailwinds in the sector, probably regulator might be one, one-and-a-half years down the line?

Nirmal Jain: So, can you just pick up the handset. I think your voice a little miffed. So can you just speak in the...

Shweta Daptardar: Okay. Is it any way better now?

Nirmal Jain: Yes, it's better. Okay, go ahead.

Shweta Daptardar: Okay, okay. So, yes, so I was wanting to know the reason on why the recalibration on ease and growth on microfinance side. So, is it that you believe that the over-leveraging of customer has gone higher? Or second, you believe RBI may be probably one or two years down the line, might again sort of bring the cap on their net interest margin? Or the sense that, there is been certain markets or geographies which sort of would have heated up for you or for the industry in particular? Yes, those are my three set of questions.

Monu Ratra: So, Nirmal, may I answer the affordable one first?

Nirmal Jain: Yes, please go ahead.

Monu Ratra: Yes, yes, hi Shweta. So, Shweta, as far as affordable housing is concerned, you're absolutely right. There's been a constraint of supply in the metros and Tier 1. I think, Shweta, if you look back at strategy for the last two and a half years, where actually we have gone more deeper into the country, into Tier 3, Tier 4 cities. So, hence, what is getting incremental business for us is the deeper geographies.

If you'll see sequentially, in the last three quarters, our affordable housing, our housing home loan disbursement has increased from, it's also gone up from Q2 to Q3 as well. So Shweta, we believe that the kind of branches we have opened, they're yet to reach an optimum level of productivity. So, we don't see, although they slowdown in the metro and Tier 1, but we'll get offset by our deep distribution.

So, I think we should be good as far as the continued growth of affordable housing is concerned. But Tier 1 and metro, yes, it's slowed down. But you're offsetting by that. And it's shown in the numbers as well..

Shweta Daptardar: Okay. And how are we faring on say AUM for employee or AUM for branch?

Monu Ratra: Right. So, if you see, we have two kind of set up, one which we call as hub locations, other is called as expansion locations. So, expansion is typically a very lean model we have, which is very technology backed. And most of these locations are less than one year old. So, all of these locations as of now to average out AUM will come out in a few years. But as far as the hub locations are concerned, we have about 50 locations, and they constitute almost as a housing finance company, they almost have about INR24,000 crores of portfolio. You can so easily say it's about holding about INR500 crores plus portfolio.

Shweta Daptardar: Right. Okay. That helps.

N Venkatesh: Nirmal, Should I answer on the micro finance?

Nirmal Jain: Yes, please go ahead on the micro finance.

N Venkatesh: Yes. In terms of if you look at the credit cost post, I mean, during the pandemic, it had gone up and subsequently pricing was slightly calibrated because of that. But if you look at this quarter onwards, we have reduced prices by 50 basis points. And also if you look at it in terms of the growth, we have been a little more cautious in terms of how we have been growing the business in certain pockets and all those things.

As such, there has not been anything, but we just wanted to make sure that we are taking the cautious approach in terms of how we have been growing the business over the last one year. And given the new regulations which came in about last year, and the new – the loan – I mean the overall rejection percentage, if you look at our credit bureau thing, has gone up also substantially.

Shweta Daptardar: Okay. That's a fair point. And the last question on the vectors to stability in margins, because the higher yielding portfolios are sort of getting recalibrated in my understanding.

N Venkatesh: Hello? Can you come again please? Sorry.

Shweta Daptardar: So what are the vectors for margin stability? What reinforces your confidence? Because I believe that all the higher-yielding products have been sort of getting recalibrated especially on the yield transfer the digital loans, affordable disbursements declining, micro finance yields slightly coming down. So what gives us confidence on margin stability ahead?

N Venkatesh: Yes, but if you look at our we have also substantially brought down on I mean especially with aspect to micro finance, we have brought down our opex is on our downward spiral, and also, we are also looking at borrowing costs also has come down with aspect to micro finance. So we will be able to maintain the NIMs.

Shweta Daptardar: Okay. And even console like across the NIMs should be maintained, right? Overall book.

N Venkatesh: Yes. Kapish, can you come on this?

Kapish Jain: I'm so sorry. Can you repeat?

Shweta Daptardar: We are guiding stable margins. So how do we see that? You know, what reinforces our confidence on stability margins going forward? Correct me if I'm wrong, most of our higher-yielding products are getting recalibrated on the yield front. So what is the confidence on margin stability ahead?

Nirmal Jain: Okay. Just so there are one is that they're getting recalibrated in terms in a very narrow band. So it's not that there's a significant impact on the product and the in terms of margin one. Secondly, if you see that the growth that we have, like in micro finance, even after slowing down was 7% quarter-over-quarter last quarter. So it's around 30% growth is something which will be maintained. So it's not that growth is slowing down to a negative level.

Secondly, as a mix of, so if you really see last few quarters, then the mix change, which is, so we have a home loan which is a low-yielding product. LAP can be relatively still lesser as we go ahead in terms of, but the digital loan microfinance is a high-yielding product. So they've been growing faster, but instead of growing much faster, they continue to grow fast, but at a pace which we are comfortable. So if you work out the weightage average of everything, we don't see much impact on the margins, on the yield also.

And as I said that, the later part of the year, you'll see probably cost of funds also coming down, in line with the systemic interest rates coming down, and that probably will give us more leeway to bring the rates down. But supposing, for argument's sake, even if you don't bring the rates down of gold loan or microfinance, then also I think we are not really violating, we are really not in terms of RBI or any other competitive pressure in a situation where we have to do any radical reduction in our yield.

Shweta Daptardar: Understood, sir. That helps. Thank you so much.

Kapish Jain: Thank you.

Moderator: Thank you.

Nirmal Jain: Also, any other more questions you have?

Moderator: Yes, sir, we have a few participants. Can we take them now?

Nirmal Jain: Yes, please go ahead.

Moderator: Thank you. We will take the next question from the line of Rajiv Mehta from YES Securities. Please go ahead.

Rajiv Mehta: Yes. Hi. Congratulations on good set of numbers. So I've got a few questions on gold loans and microfinance. On gold loans, if you can spell out, what was the movement in overall tonnage? And also, if you can throw light on how is the average pledge per customer moving in the last three, four quarters?

Nirmal Jain: Average?

Rajiv Mehta: Pledge per customer moving in the past three, four quarters?

Nirmal Jain: So the pledge, you can work out based on the LTV, as I said.

Rajiv Mehta: But I'm saying it's not going to tonnage per customer?

Nirmal Jain: Tonnage per customer, I think, will be grams, you know, so.

Rajiv Mehta: Yes.

Nirmal Jain: So it's the average ticket price, INR75,000. Gold will be worth INR110,000. So you can calculate that again changes based on the carat and the adjustment. So it will be a few, 20, 30 grams or whatever. And then, in terms of tonnage growth, I think we had about 2% tonnage growth last quarter. Quarter over quarter. So the festival quarter, there are a lot of releases, but still we had a tonnage growth of around 2%.

Rajiv Mehta: 2%?

Nirmal Jain: Here it's around 8.7%.

Rajiv Mehta: Correct. And, sir, what has been driving the improvement in gold loan yield? Because, we've been seeing a lot of competition having come in and there was also competitive, reduction of rates one and a half years back. And now the yield for us has been continuously improving. What has been driving it?

Nirmal Jain: So, one, Rajiv, we were, so the base, if you see last year or earlier, when there was a cutthroat competition, the yield had come down artificially or not artificially, but maybe unsustainably low than what is the relative sustainable model which is around here. We are still very competitive vis-a-vis the yield of competitive players. And the newer branches which have been set up in smaller areas, there we are able to command a little better yield. So, all these sectors are combining to give us slightly more yield in the last quarter versus previous quarter and the fairly last three quarters, if you see.

Rajiv Mehta: So, can you break up a gold loan book in terms of, say, ticket size below INR1 lakh, INR1 to INR5 lakhs and more than INR5 lakhs? That will be helpful to understand the profile and also the yield?

Nirmal Jain: Not much change in what we had last time. I think this question was asked earlier. Because of the millions of customers, it remains more or less similar, but the data will send it to you, Rajiv. I don't think I have it ready here. Or if somebody can dig this, I'll just let me check.

Rajiv Mehta: Sure, sir. I'll just move to microfinance. So, microfinance, we have got one plus DPD of 3.7%. Which markets are, driving this slightly higher number?

N Venkatesh: Yes. If you look at certain markets, like for us, maybe MP, Rajasthan and Orissa are slightly on a higher side. And if you look at the older market like Tamil Nadu will be on a slightly on a higher side for us.

Rajiv Mehta: Okay. And amongst the new borrowers being added in microfinance, where do we come in, in terms of being -- which number in terms of being the lender? Are we the -- I mean, are we unique or we also, take up a customer being a third or a fourth lender as well?

N Venkatesh: Yes. We are new to credit would be close to around 9%. New to Samasta is close to around 40%. And we have close to, we don't go to the fourth lender at all. We have, we just -- one of the things if you looked at why our growth is -- thing is we recalibrated and we are not looking at this over leveraging of customers and all that. And we don't want to be the fourth lender in the thing. And in some of the cases, we are okay with giving higher ticket size to our existing customers who have been with us for a longer time and looking at customers who have been borrowing from multiple borrowers.

Rajiv Mehta: All right. Okay. Just lastly, wanted some more colour in terms of, Nirmal spoke about recalibrating, calibrating underwriting in MFI. So one of the aspects of not chasing, not chasing a borrower and becoming a fourth lender, which are the other aspects of what we have changed in terms of underwriting or customer selection in MFI?

N Venkatesh: Yes. We have looked at very geographic specific things, how the market is playing out in a couple of these geographies. And certain geographies are slightly, if you look at the borrowing levels have been a thing and the overall economy in those places have been not supporting. So we normally slowdown in certain geographies and things and we take a call on time to time basis. I mean, if you look at the -- if the rains are not sufficient or something, we, we look at it in a different way.

Once things are better, we go back and see more traction in those geographies.

Rajiv Mehta: Sure. Thank you so much.

Nirmal Jain: Yes I'll just take first question that has come through social media, actually. So it's about the AIF provisioning and the RBI norms that have come for that. So we had certain units in our HFC, which were, which required provisioning and we have done the full provisioning for that. So the 900 crores portfolio on our book of our loan, you have 77,500 crores and our loan book, which is close to around 47,000 crores is not very significant, that is one.

Secondly, we have taken some provision as I said in the fair value of the units in this quarter. And this AIF is the service for three years which is coming to an end in the month of June. 9th June or maybe something like that but in the month of June of this year where we expect it to be in a close maturated or completely distributed. So, I think I don't think there's a serious concern from the way our numbers will, no it doesn't impact the numbers of our capital or the provisioning our income.

We have taken some provision and if required more we can take it but it's just one more quarter and after that it will get liquidated. But anyway, we can go to the next question. I just thought that I will take up this question because this has come through some social media, yes.

Moderator: Thank you. We'll take the next question from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: Yes, hi, thanks, sir, for taking my question. Just wanted to understand our stage one provisioning is down sequentially from 1.9% to 1.5%. So having revised the ECL model, this quarter?

Nirmal Jain: No, sorry, what is 1.9 to 1.5?

Jigar Jani: The provisioning on stage one assets, which was in Q2, 1.9%, that's' come down to 1.5% this quarter. So have you revised the ECL model this quarter?

Nirmal Jain: No, it's 1.9% this quarter, right? So, okay. You're saying it's changed now? So, maybe I'll have to check this. Where is this change in terms of the stage one? Or is it a little different? Yes, actually, in CRE portfolio, I think there is a revision from 10% to 8%, yes. So that is the weighted average.

Jigar Jani: Okay, so --

Nirmal Jain: These are all based on the actual performance of the assets. They work out of the numbers. But what we have done is we have increased stage three provisioning from 44 to 49.

Jigar Jani: Okay, so -- so this is on account of some role forward or is it like your --

Nirmal Jain: It's based on the actual performance of the assets. See our overall -- we could have gone down because stage two and stage three has increased more aggressively. So if you see stage two has increased from 7.6 to 8.2, and stage three has increased from 44.5 to 49.6.

Jigar Jani: Okay, okay, understood.

Nirmal Jain: And so based on the actual role forward, they calculate these numbers.

Jigar Jani: Okay, understood. And sir any update on or any timeline from the QIP? When can we expect some update on that?

Nirmal Jain: So we have taken approval for a year, which is now ready for another 10 months or so. We are not in a hurry to do this thing, but at appropriate time in market and if other conditions are okay, we'll look at that. But, I mean, it's not imminent.

Jigar Jani: Okay, okay, I understood. Thank you so much. That's all the questions. Thank you.

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

Abhijit Tibrewal: Yes, thank you for allowing me a follow up question. So just one question on microfinance. If you look at the last three quarters, the NPAs have been pretty much sticky at around, the last three, four quarters, NPAs have been pretty much sticky at around 2.1%, your stage three numbers. Despite we taking provisioning write-offs in the -- some of the MFI. So, I mean, why is it that we are still seeing kind of incremental continuous flows in microfinance? When, I mean, if I look at all the other NBFC, MFIs, COVID pain for them is largely over.

I recall we've done some amount of restructuring. So, I mean, when can we really expect this number, the gross stage three number in microfinance to start trending down? And credit costs in the microfinance business to start coming down?

N Venkatesh: Yes, in terms of, if you look at the provisioning and the stage three, it's gone up from 63% to 80%. And if you look at also, if you look in a couple of places, there have been some kind of a thing, but all those have been evened out in terms of how the book has performed. And in the last four quarters, it's on a downward spiral. And loan book also is on a similar level, actually.

Nirmal Jain: Yes, I think you said the stage three is 2%. So, I think we need to compare this with industry players to figure out whether stage three 2% is the normal or is below or higher than the other peers.

Kapish Jain: Abhijit, if I may add, I think we can discuss with you separately. So, if I compare my lagged NPA numbers over the last four, five quarters, they've been smartly coming down here. And I think we did come to the conclusion yesterday itself. It's not with me handy, but that's why you see that this lagged NPA is the right measure has been showing improvement.

Abhijit Tibrewal: Understood, understood. Got it, got it. This is useful, thank you.

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

Shubhranshu Mishra: Hi, sir. Thank you for allowing me a follow-up question. Few questions, the first one is on the risk management. What is our selection infrastructure? How many people out of that 38,000 do we deploy across businesses and collections? That's the first. Second, just a clarification. Did you mention that we do an assignment of gold loans? Because gold loans are bullet loans and the regulator doesn't allow assignment or securitization transactions for gold loans.

Nirmal Jain: Sorry, you're saying, can you repeat, please? I couldn't hear you.

Shubhranshu Mishra: Right, can you hear me now, sir?

Nirmal Jain: Yes, yes.

Shubhranshu Mishra: So this first question is on the collection infrastructure. How many people do we deploy in collections out of the 38,000 people across businesses, which is MFI, mortgages, digital loans and other gold loans, so on and so forth. That's the first one. Second is, you mentioned that we do assignment on gold loans, but the regulator mentioned that we can't do assignment or securitization transactions on gold loans given the fact that they are bullet loans and not term loans. So if you can clarify on that part, sir thanks.

Nirmal Jain: No, gold loan assignment transactions cannot be done with bullet. So gold loan, no, I don't, you're saying they're bullet loans, so we don't do bullet loans for that.

Shubhranshu Mishra: Okay, we do EMI goal loans, there.

Nirmal Jain: Okay, and if there may be a small portfolio of bullet loan that we don't assign, but our bullet loan portfolio is very, very negligible. In collection, so we have 125 people in our digital loan and LAP. Monu how many people are there in collection and home loans?

Monu Ratra: There are more than 500 people in collections for --

Nirmal Jain: More than 500 people and the gold loan primarily branches and there may be a small team to oversee. All put together, we'll have about 700 people and 800 people in collections. And then there are agencies also to support in certain buckets as we require.

Shubhranshu Mishra: How many agencies do we have, sir, about hard buckets?

Nirmal Jain: At local level, there'll be multiple, but I don't know, Monu how many agencies we deal with?

Monu Ratra: So in HFC, we don't employ agencies. Really, we all do in-house. So we have different buckets of collection people. We don't employ agencies in HFC.

Nirmal Jain: Our agency requirement is minimal, but still they're supported for a hard bucket or whatever, but there are a few locally tied up. So I don't have that number, but they are not like very significant in our total contribution to collections or cost.

Shubhranshu Mishra: Understood, sir. And you mentioned that we largely do EMI gold loans in assignments. Is that.

Nirmal Jain: It's not EMI. It may be monthly interest or a regular interest payment. So the bullet loans are -- so gold loan what we do, okay, they're not really EMI, but interest is paid on a monthly or quarterly basis.

Shubhranshu Mishra: So, no, what is written on the customer loan sheet, sir, is it a bullet repayment loan and we are collecting the interest on a monthly basis? So that is how we define it as a monthly interest loan, or have we told on the customer loan sheet that it is a monthly interest loan?

Nirmal Jain: No, the customer loan sheet, very clearly we're saying it's a monthly interest.

Shubhranshu Mishra: Okay, okay. So just a counter—

Nirmal Jain: Customer will always have option to change the loan if they want to, but otherwise written very clearly.

Shubhranshu Mishra: Right, so just a counter-intuitive question to this. So if we are doing it on a monthly interest, then the interest would be, the yields would be yield dilutive, right? If we are collecting on a monthly basis rather than doing it on a bullet loan basis, but our yields are pretty much closer to the other gold loan NBFCs.

Nirmal Jain: No, if you see the, okay, there are two things, that how fast you can vary your branches, but other gold loan entities have higher yield than us. What you're saying is right, that if you try and accumulate it, then obviously you can command higher yield because of the way IRR will work and you can charge a penal or higher rate of interest, but our yields are lower than many other banks in the industry.

Shubhranshu Mishra: Sure, sir. Maybe I'll take this offline, sir. Thank you so much and best of luck for the future.

Nirmal Jain: Thanks.

Moderator: Thank you. The next question is from the line of Anusha Raheja from Dalal & Broacha. Please go ahead.

Anusha Raheja: Yes, thanks. Just on the AIF exposure only, how much was the provision that had come in this quarter?

Nirmal Jain: So this quarter, individually we had done 40 crores provision in our NBFC and in our HFC, we had 180 crores rupees -- is completely knocked off from the capital itself. So, you know, we made, that is the provision.

Kapish Jain: And there was 10 crores provision in the last quarter also for the AIF.

Anusha Raheja: Sorry come down again?

Nirmal Jain: So for 180 crores, we had knocked off from the capital itself. So obviously, it doesn't require any provision because we have not considered it in capital. And other than that, we have another INR50 crores of provision.

Anusha Raheja: Okay. And how much will be the pending part or you have fully provided in this quarter itself?

Nirmal Jain: No, we -- okay, we don't have to fully provide it. It's not that these assets will become zero and you know, this thing, but as I said that we have complied with the guidelines. So one is that the guidelines basically were that the receivables which are transferred in the last 12 months. Now our AIF has been there for two and a half years and we have not transferred any new receivables. So these receivables are transferred two and a half years ago when AIF was formed. So really that particular clause of the circular is not applicable to us.

Anusha Raheja: Okay. Okay, sir.

Nirmal Jain: But still we are conservative, we are trying to make adequate provision for this in case of liquidation or in case of closing down of the funds. Yes, thanks.

Anusha Raheja: Thank you.

Moderator: Thank you.

Kapish Jain: And Abhijit, if you're still on the call, our actually lagged NPA is down by 40% to what it was in March. I'll discuss with you separately, but MFI is actually showing improvement in the lagged NPA.

Moderator: Thank you very much, sir. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Kapish Jain for his closing comments. Over to you, sir.

Kapish Jain: So thank you very much for joining this call and for a very interactive conversation that we had. We're happy to take any further questions, queries, or anything that you want to understand further. You can reach out to our Investor Relations team. Or you can also connect with us separately for any conversation that you wish to do. Thank you very much.

Moderator: Thank you, sir. On behalf of IIFL Finance Limited, that concludes this conference. We thank you for joining us. And you may now disconnect your lines. Thank you.