"IIFL Finance Q1 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, Good Day and welcome to the IIFL Finance Q1FY22 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to the management. Thank you and over to you.

Rajesh Rajak: Thank you for joining us on this call. I am Rajesh Rajak – Chief Financial Officer accompanied by Mr. Nirmal Jain – our Chairman, Mr. Monu Ratra – IIFL Home Finance CEO and Mr. Venkatesh N – Managing Director IIFL Samasta Microfinance. I will hand over to Mr. Jain to comment briefly on the economy and overall on the Group strategy and plans after which I shall give brief business updates. Over to you, Mr. Jain.

Nirmal Jain: Thank you Rajesh. Good afternoon and welcome to our Investor Call. So, last quarter was challenging in terms of business environment because April and May were very badly affected by Covid Wave-2, and it came very suddenly, very swiftly and was brutal in terms of its impact and obviously in these two months not only businesses have got affected in terms of new credit and growth, but also in terms of collections. Things improved in the month of June and they continued to improve further in the month of July. So, as we see this month is better than the previous month and which is much better than April and May. We can see all indicators in terms of mobility or business resumption indices, all of them indicate recovery. But as we know it is not even and it is not that all segments are recovering at the same pace and most of the services sector is recovering quite well, but then there are segments like taxi tour operators, malls, cinemas they are very badly affected and they continue to be shut and obviously it will impact those who have credit exposure there to recover.

Now coming to NBFC sector:

As we can see that commercial vehicle, SME and MFI are the segments which were badly affected last quarter and they have been in general badly affected during COVID in last one and half years as well. So, as far as we are concerned in IIFL, our exposure to these affected sectors which is MFI and unsecured SME loan is only 14%. So, on the whole relatively we have been better off.

Talking about our strategy: Our focus as well as our business plan remain the same, which we have talked about in earlier calls also. So, they are the three key building blocks. And I can talk little bit about that:

One is retail, second is digital and third is bank partnership.

So, we want to be focused on retail and already 94% of our book is retail. So, they require us to wind down or reduce our exposure to wholesale which is our exposure to construction and real estate or developers.

In last quarter we have completed part of the CRE transfer transaction, part of transaction will happen in this quarter and some part will remain on the book. We have said this earlier that we do want to finance where we can leverage the relationship into home loan for our HFC business, but the difference is that earlier as an NBFC we were funding against land or where the risk was higher and the return was higher, now the funding will be more to relatively towards smaller projects and mostly for construction.

Having said that I think that CRE or wholesale business, in over next one or two year should be less than 5% of the total book. It is around 6-7% currently. In terms of retail we are also adding branches in last quarter. We added about 100 odd branches, went live despite the COVID Wave-2 because these branches work was done in the previous quarter and we may continue to expand our branch in the footprint because in our retail business model, one of the core product is gold loan and that is something which requires physical storage near the customer, where the customer can come and take the loan and repay the loan and release the gold. Everything happens in 5 minutes or 10 minutes.

In digital there were lot of exciting developments. We had our app My Money where completely paperless instantly loan can be approved - business loan or personal loan. Primarily our focus is more on SME loans of smaller ticket size. As environment for unsecured business loan and business loan in general has been little volatile and challenging,we have been cautious here and we have not pressed the accelerator here yet. Maybe in the next two-three months or next quarter when things become more normal in terms of SME business environment, we can accelerate that business segment also. So, we have two apps-My Money and IIFL Loans, and we continue to add features and services there. We have also tied up and got into alliance with few Fintech companies and are talking to few large technology companies as well.

What we propose to do is that IIFL Securities and IIFL Finance jointly will put in sponsors contribution in an alternate investment fund where we can make investments primarily in Fintech companies where we can form certain alliances and we can make a small equity investments in their technology as well. So, maybe in the first phase I think IIFL Securities and IIFL Finance each will contribute about 20-25 crores and will have a small fund raise of about 100 crores to invest in these companies. Few of our these investments are in very advanced stage and they will take off this very quickly.

Then the third building block is our bank partnership, where we focus on co-lending assignment. The idea is that we have the skills in originating good quality loans, we have people who can originate, we can do a risk assessment which meets bank standards and these are the loans which basically banks would like to have on their balance sheet to meet their priority sector norms or their retail loans targets as risk is very low.

So, almost 94% of our loan portfolioare those that most banks would be happy to take, by way of assignment and which can become part of our co-lending arrangement as well. Last quarter again because of COVID and difficulty in doing physical meetings and audit verification, assignment was slow and so we made up by securitization where also risk transfer takes place.

Also, under co-lending we signed up with Central Bank recently and we already have a few relationships since the last few quarters. The technology integration and related things they are moving slower than what we expected them to be last quarter, but the good part of it is that in the month of July again, the integration process has started andwe should see some progress in this quarter.

Coming to liquidity:

We have raised bond issue for subordinate capital for IIFL Finance last quarter. We closed our bond issue for IIFL Home Finance yesterday and we had a very good response there as well. So, the bids are about more than 800 crores and we will see the final allotment in next few days.

As we had said that banks basically are keen to get these retail assets by way of securitization or assignment, so liquidity is comfortable. Last quarter on the whole our loan AUM there was a degrowth, maybe Rajesh will talk more about it and therefore the requirement for incremental funding was also lower and hence the new debt that we raised is also lower to that extent.

In terms of ESG, we have made some very good initiatives and over last few years. Our Housing Finance Company has taken a lot of efforts to fund affordable projects in a manner that they are sustainable and we have some world renowned experts helping us in this. We also published our green building book, which is free, and where we are sharing our knowledge because in Indian context we talk about not only sustainablilty where you do not deplete the natural resources, but they should also be affordable, where you have to build at a lowest cost possible so that the unit cost of house is affordable to the lower segment of the society.

In terms of disclosures, as you know that we have been trying to disclose as transparently as possible and this time we have added couple of slides more. One is where we have given details of restructured assets and also the reconciliation of provision from the previous quarter provision to this quarter and thereby looking at the hit that has come into profit and loss account.

Now looking at the outlook, nobody knows what will happen to COVID in terms of Wave-3 and if Wave-3 happens how long and what kind of impact it will have on lockdown and the economy, but other than that my personal view is that given the vaccination drive in full swing and lot of herd immunity has already developed, I do not think we should have any serious threat because of COVID Wave-3 .Therefore, we look at the environment for next three quarters of this financial year as well as next financial year with great optimism.

So, our new branch expansion plan which was at a bit of a pause last quarter will resume from next quarter. We should have good number of new branches coming up. We have identified locations with lot of scientific efforts in terms of potential under penetration and where our products fit in well. Also as I said, in the last quarter disbursements were slow. But the trend that we are seeing in July, maybe after 15^{th} of July where things are recovering very well and therefore in terms of growth as well as collection efficiency things should be much better than this quarter.

With this I hand over to Rajesh to take you through the financial details. Thank you.

Rajesh Rajak: Thank you Mr. Jain. I will just take all of you through our key highlights for the quarter and our major business updates. So, our profit after tax was Rs. 266 crores in Q1 FY22 which was up 735% on a year-on-year basis and up 7% on a quarter-on-quarter basis. We recorded pre-provision operating profit of Rs. 515.5 crores during the quarter which was up 58% on a year-on-year basis driven by higher volumes, better margins and cost optimization. During the quarter we took a cautious approach to new loan disbursals considering the potential impact of the second COVID wave. Accordingly, assets under management of our core products remained flat over the previous quarter. On a year-on-year basis AUM grew by 13% to 43,160 crores. If we take only the core segments then they grew faster at 20% on a year-on-year basis. 93% of our loans are retail in nature and of them 65% are PSL compliant. As you all know gold loans are not deemed to be classified as PSL loans under RBI regulations. The large share of retail PSL complaint loans are of significant value and the current environment where we can down sell these loans to raise long term resources.

In line with our capital optimizing strategy 34% of our AUM is assigned or securitized as of June 2021 which is up from 31% as of the same period last year. Our cost-to-income ratio stood at 38% for the quarter marginally higher than 35% in FY21. Our annualized return on assets for the quarter was 2.6% and during the same period annualized return on equity was 19.7%.

Our Tier-1 capital adequacy stands at 17.8% and total capital adequacy at 25.6%. They are well above the statutory requirements of 10% for Tier-1 and total requirement of 15%. Our average cost of borrowings declined 33 basis points on a year-on-year basis to 9% during the quarter. On a consolidated basis our gross NPA's and net NPA's stood at 2.2% and 1% respectively as against 1.7% and 0.8% respectively in the same period of the previous year. Our collection efficiency during the quarter was marginally affected across businesses due to the second wave however the impact was much lesser as compared to the first wave seen last year. Our provision coverage ratio including standard asset provision under IndAS norms on Stage-3 assets was 180% as of June 2021.

A brief update on our liquidity:

During the quarter we raised Rs. 1,822 crores through new terms loans and refinancing. In additions loans of Rs. 1,804 crores was securitized and assigned during the quarter in line with our strategy. Our cash and cash equivalence and committed credit lines from banks and institutions all added up to Rs. 4,494 crores that were available as of June 30th, 2021. We have a positive ALM whereby exceed expected outflows across all buckets.

A brief update on a digital strategy:

We continue to focus on digitization and analytics to improve customer experience and enable a convenient one stop shop for customers credit and investment needs.

To enhance digital experience of the users we have revamped our customer portal and website and also integrated WhatsApp chat bot as an addition medium for better customer servicing. Till 30th June 2021 we have disbursed Rs. 282 crores under the digital top up for high quality, secured MSME loan customer initiative. The entire journey is paperless. Communication for accepting sanction letter and e-agreement is sent to eligible customers via SMS and disbursement is automatic with almost no manual interventions. Jhatpat Home Loans is a Pan India product for instant home loans which helps all the stakeholders in the housing finance industry, individual home borrower developers and the company to get a loan in an instant manner. Our home loan disbursed via Jhatpat Loans has gain significant traction. Out of the total home loan disbursed in the month of June 97% was source through Jhatpat Loans. The corresponding percent in June 2020 was 60%. IIFL loan apps is being increasingly used for various transactions by customers and has been especially beneficial during COVID lockdown times giving customers ease and convenience of access. We have over 168,000 average active users on the app for the month of June. That brings an end to the update.

We can now open the floor for questions please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Just one question Sir, so far whatever NBFC results have come out the trend has been that the Q1 has sort of seen increase in credit cost, but for IIFL Finance it seems that you have the same amount of provision. So what gives us the confidence? because on the book even today around 40% would be loans such as business loan plus MFI, etc.?

Nirmal Jain: No, it is not 40% it is 14%. So, our MFI and unsecured business put together is less than 14%. So, 86% of our portfolio is secured either by collateral or mortgage or by gold loan.

Prashanth Sridhar: Our view is that current level of provision is sufficient?

Nirmal Jain: So, if you really look at it, the last whole year we had provided very conservatively and very aggressively. So, historically if you look at our 10-years track record our credit cost have been in the range of 80 basis points or say100 basis points maximum and last year is almost 3x as much. So, last year we have been conservative so we are done with a lot of provisioning to that extent and if something unforeseen or even other situation emerges, you look at our portfolio then the unsecured part or the part which is under stress is only MFI and unsecured business loan because other than that there is gold loan, home loan and then there is LAP and there is a builder loan which is also being moved or loan against shares which is capital market linked. These are all secured by collaterals which are good. So, the industry trends are not that is anything to reflect on NBFCs capability or management, but commercial vehicles or passenger vehicle or predominantly MFI or business loan will be more impacted by unsecured exposures.

Prashanth Sridhar: Just two technical questions one is the restructuring that you disclose that would form part of Stage-1 or Stage-2-3 and number two when we look at the P&L there is an item net loss on derecognition of financial instrument would that also form part of credit cost?

Nirmal Jain: No, that is different and in credit cost a significant part of it is Stage-2 and it continues there as of now, partly in Stage-1 and partly in Stage-2.

Prashanth Sridhar: And what would that item on the P&L be net loss on derecognition of financial instruments?

Nirmal Jain: So, we have transferred set of assets to AIF. So, these are actually write off's in a way. Even the debentures as well as loans where the values are either written down or written off those will also come here.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead

Anand Bhavnani: So, if I were to see the microfinance business, the credit cost for GNPA is like 1.8% in FY21 and in Q1 FY22 also it is 2%, so I think this would be among the best of the performance and if you can give us some sense of Is there any credit cost that is yet to come in this it will come in let us say in the foreseeable quarter?

Nirmal Jain: So, in the microfinance business if you see 200 crore would be restructuring, because for most of these people livelihood was impacted in the last quarter and rather than damaging their credit score we have given them some more time. Also in this quarter, because of certain interest reduction or interest waiver you will see that the interest yield also has come down on the microfinance part.

Anand Bhavnani: Sir I wish to understand whether restructuring microfinance is done?

Nirmal Jain: Yes, 200 crore would be the microfinance loans restructured.

Anand Bhavnani: Would you need to now more or it is sufficient?

Nirmal Jain: No, I think now things are recovering and we do not really need to provide more. So if you see our closing provision in microfinance is 205 crore. So, in this quarter we added Rs. 51 crore to the loan losses and provisions. So, if you look into slide 17 of the presentation then you will see that we have restructured 200 crore over and above that we are carrying a provision of 205 crores and out of that 51 crore was additionally provided in this quarter.

Anand Bhavnani: And sir what was our write down in microfinance in FY21 and in Q1 FY22?

Nirmal Jain: You are saying last year.

Anand Bhavnani: Yes last full year and the current quarter what was the write down?

Nirmal Jain: I do not have last year data right now with me. Last year, we did not do any restructuring. This quarter is the first time that we have done restructuring of 200 crores and also provided for the loan losses and provisions. This includes write down, write off as well as losses amount that we carried forward last year. Provision of 154 crores and we added additional 51 crores in the quarter. So, at June end we are carrying forward 205 crores in total.

Anand Bhavnani: There would have been write off also?

Nirmal Jain: I do not have last year numbers right now, but I will get back to you.

Nirmal Jain: I can answer the couple of questions which was asked by one of the earlier participant. So, last year write off was 43 crores and 85 crore would be provision which was made for microfinance business alone. And the earlier question on the Stage-1 andStage-2 , under microfinance out of 200 crore, 115 crore is Stage-2 and 85 crore is Stage-1 from the loans that we have restructured.

Moderator: Thank you. The next question is from the line of Chetan Cholera from Pragya Equities Private Limited. Please go ahead.

Chetan Cholera: In presentation if you see they are giving two different pictures, if you see the employees and branches it is growing like anything and other side if you see the collection efficiency and loan growth is a different direction, so how the picture is now currently?

Nirmal Jain: Only the last quarter was impacted in terms of collection efficiency and growth and we have to plan for the future. So, this is a good time for us because as I said in my opening remarks, we are looking at future with long optimism and we continue to invest in growth. So, as of now things are looking better and that is your guess even my guess will be similar. What will happen due to COVID or how things will go we don’t know, but by and large there is optimism that the things will be much better in next three quarters going ahead than what they had been said earlier. So, in terms of branch and employee expansion I have said that we want to do it because we see great opportunity going ahead.

Chetan Cholera: And other thing, what consist of this fees in other income? why I am asking because there are wide fluctuation like last Quarter 4 it was 143 crores now it is 45 crore so it is roughly 100 crore difference is there?

Nirmal Jain: There are two components - if the disbursements were low, the fees will be lower because significant amount of our fees particularly in housing finance will be led by new disbursements and secondly ,there are certain investments in which sometime you may have a booking of profit which happened in last quarter, but that may not happen in every quarter. So, the fee fluctuations is owing to disbursements and the net gain or loss on fair value changes that will link to investment sale. In last quarter, we used to hold shares of CIBIL which is a credit bureau which we had sold and gain was booked in Q4FY21 other than that you will see that the trends are stable.

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

Pranit Banwat: Sir just wanted to ask can you put some light on AIF transaction that occur in Q1 and how much is in pipeline in the remaining FY22?

Nirmal Jain: So, in the AIF transaction which happened, there is SSG who has come as an investor and Rs. 1,400 crore of that is transferred to this AIF. Earlier, we had planned 3,000 crores of assets and some cash on top of that. We may not do the entire thing because some of the loans are getting repaid faster or somewhere we are also getting the SWAMIH funding and it may not be prudent commercially to transfer them in AIF because AIF has a term of upto 5 years and so the senior debt holder basically get a higher return and a priorityreturn. So, I think there is a part of transaction consummated last quarter andsome part will happen this quarter maybe we will get it closed innext few days, but I do not have a precise number of this quarter's transaction.

Pranit Banwat: Just what is FY22 pipeline expected amount?

Nirmal Jain: FY22 pipeline for?

Pranit Banwat: For AIF transaction how much you are targeting?

Nirmal Jain: It is a onetime thing it is not something which they need target. So, whatever happens now in next few days we shall close there.

Pranit Banwat: 1,400 has been done in last quarter?

Nirmal Jain: Yes, if you see last quarter we have done about 1,400 crore.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche CIB Centre Private. Limited. Please go ahead.

Abhiram Iyer: I actually have three questions one was on the AIF transaction. Good to know that 1,400 crore was transferred last quarter, but was there any reversal or provisions that were taken on these and essentially what is the amount of pass through that pertain to the AIF that we hold on as an investment?

Nirmal Jain: On aggregate 90 crores of the release of provision that happened.

Abhiram Iyer: And essentially the other thing that I wanted to sort of understand was how much we value the equity portion that we still hold in the AIF right now on the books I believe this is part of investment you mentioned in the last…..

Nirmal Jain: There is no change in the value of the units that we are holding because the transaction consummated towards the end of the quarter. What we have done is that the valuation is fairly realistic and I do not expect any write down in those units, but we will get it fair valued from time to time. But I think for every 6 months we have to get them valued. So, I think they have been conservatively valued, I do not see any written down there.

Abhiram Iyer: Is this part of investments under other financial assets? so if these have been removed from the loan assets then why do we see this on the balance sheet right now?

Nirmal Jain: Yes, in the balance sheet in investment, you are right.

Abhiram Iyer: The other question that I have had was on liquidity usually in the last couple of quarters or so we used to maintain around 6 months of liquidity in terms of principal and interest, our liquidity has sort of come down a bit because cash has sort of come down and the earmarked cash and equivalent have jumped up, is there any plan to sort of increase liquidity overall right now? I think we covered around only 5 months if I am not mistaken of principal and interest?

Nirmal Jain: It is very similar, I do not think there is much of a difference. If you see now our liquidity is around 4,500 crore and it meets around November, December 2021 kind of a thing. In December there will be some lumpy payment, but liquidity again is a cost so we should be prudent about it because whatever cash you carry on the balance sheet return is just around 3-4% or not even that and you borrow at 9% and invest at 3% or 4%. So, we have five and half month's liquidity, but I think we will maintain it that way and even on the day of the balance sheet date it might go up and down by few numbers, but I do not think there is any change in that strategy. So, if you see the current chart also on slide 21 which is our liquidity of 4,494 crore and you have 4,453 crore by November. So, it takes you to the month of December with June end balances.

Abhiram Iyer: Also, I was assuming that you are planning to arrange some sort of financing to replace the principal amount?

Nirmal Jain: Now these are June numbers, on top of this in July we had bond issue of our housing finance which was closed yesterday, it will also probably add another 750-800 crores to our liquidity. So, as the bond issue was launched that is why we did not borrow more than what was required.

Moderator: Thank you. The next question is from the line of Amit from 2Point2 Capital. Please go ahead.

Amit: Couple of questions one the cost of funds has increased by 20 basis points quarter-on-quarter, so what was the reason for this increase despite no increase in overall borrowing? Second question if you can give more color on the gold loan business outlook? So some questions on basically how many branches basically do gold loans out off and how is the gold loan branch count expected to increase over the next two one-two years?

Nirmal Jain: So, answering the first question, cost of funds I think your observation is correct, but what happened is the cost of fund has actually not gone up, but the weighted average cost of funds that we calculate for disclosure purpose includes IPO financing which is at a lower rate and we had a much higher IPO financing last quarter compared to this quarter, excluding the the cost of funds remains the same and also slight impact would have come because of the sub debt that we raised last quarter. because the subordinate bonds that we raised in IIFL Finance that was at 10% yield and it might be it cost a few basis point more. The sub-ordinate Debt transaction if you remember, consummated towards end of last quarter so the full impact would have come in this quarter.

Amit: What about the gold loan business?

Nirmal Jain: Under the gold loan business, we plan to set up about 700 branches for which we needed RBI approval. We have already taken the RBI approval for 700 branches which are to be set up within next12 to 18 months. So, we will add these 700 branches. So you can say that gold branches will go up by say 700 in this year and next year.

Amit: And currently how many branches do we do gold loan business sort of?

Nirmal Jain: So, out of 2,682 branches about 2,000 branches are in gold loan. The branch count will go up by 25% in this year, next year.

Amit: Last question what is the overall portfolio LTV on the gold loan business?

Nirmal Jain: It is about 70-71%.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche CIB Centre Private Limited. Please go ahead.

Abhiram Iyer: Actually, just wanted to sort of verify one thing in the current presentation when we look at income from interest income from IndAs loan book as well as income from assigned assets, I just wanted to know was what is the rationale for income from deecognion of assigned assetssir? because are these basically derecognition of assigned assets which give as an income push?

Rajesh Rajak: When we look at fifth row which is net gain on derecognition this is actually under IndAS rule when we assign and it is taken as a true sale, the upfront gain is required to be booked as income. So the 49.6 that you see is there and then when we come to the presentation and you see income from assigned assets, it would include this item and the regular net interest income on the assigned portfolio, which is of about approximately 10,000 crores.

Abhiram Iyer: And just to confirm this is just assigned assets right? this is not resolved as bad loan basically? there is not any sort of gains made on bad loans which hasn't resolved?

Rajesh Rajak: No, so these are the loans which have been assigned and the true ownership lies with the bank with whom we have partnered. When the loans are assigned to banks they cannot be bad, so only standard loans are assigned.

Moderator: Thank you. The next question is from the line of Yash Agarwal from JM Financials. Please go ahead.

Yash Agarwal: Sir my first question is what is the loan book growth are we targeting in FY22 and FY23 and which are the major segments we did?

Nirmal Jain: So, under normal circumstances if the COVID or such unexpected things are not there then we will have about 20% loan book growth, that is what should be the broad indication this year as well as in next year and I think from the fourth quarter where we see growth are gold loan, home loan, MSME loan and microfinance. MSME and microfinance might have passed through difficult times in the last quarter and in this quarter as well it is still not fully recovered, but hopefully all these will recover in this quarter or next quarters. So, if we are taking a view on this quarter this year and next year then all four of them should be growing well.

Yash Agarwal: And sir just some assessment of how the credit cost could be for the rest of the year I mean I see IIFL has a pretty lumpy Stage-2 book I think it is about 4,100-4,200 crore so in light of that what sort of credit cost you see assuming that there is no intense third wave for the rest of the year?

Nirmal Jain: So, yes you are right actually and this question had come last time also. So, in gold loan business the typical tendency is to collect it in the third month and this is something which customers and branches are used to. So, if you see the Stage-2 the significant lumpy part of it is coming from gold loan and that has always been the case. Business loan again because during last quarter April, May months were very bad. So significant component of it has gone into stage 2 and from home loan as well into Stage-2, but hopefully with improving collection efficiency in June and July we should see things come in our control. So, if you look at our Stage-2 this quarter versus last quarter, there is a small growth so last quarter also it was around 10% and now it's around 13% so that is the nature of the business.

Yash Agarwal: So, what could be the potential credit cost for the rest of the year? is there any ballpark number that you are looking at?

Nirmal Jain: So, I think what we have seen in the first quarter extrapolated should be a good benchmark for this year.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Sir on gold finance you mentioned we will be having branches up about 700 for next two years, is the approval through or you are waiting for approval?

Nirmal Jain: Yes, approval is through. We have got the approval.

Anand Bhavnani: And secondly you are seeing that lot of Fintechs are getting into gold finance. They are offering home delivery gold loan kind of products, so have we looked into that and are we considering do we see that being any meaningful threat or are we planning to do something similar?

Nirmal Jain: So, Fintechs have started with gold loan home delivery so basically our employees go to the customer's home they pick up the gold and the money is transferred to customers bank account. So, we also started similar kind of service and many other established gold loan companies have started this service. So, I think in the Zomato and Swiggy world everything is home delivered including gold loan. So, we have already started that in 8-10 cities and we will expand it.

Anand Bhavnani: And do you see it being a meaningful contributor to your AUM? Let us say over next two-three years or is it just a add on it is a feature and not kind of the main offering how do you reach this particular scenario?

Nirmal Jain: I think in the larger cities this can become significant and as customers get used to the convenience of gold loan delivered at home. The way the economics work in this service is that okay the cost of branch and the cost of pickup & delivery and security it can become meaningful, but having said that I do not think branches will become irrelevant because many times customer want to go to the branch and see and have a convenience of getting loan in 5 minutes time and so I think both the models will continue. This will not be very insignificant, but at the same time at least I do not foresee it replacing branches or it will not create a situation where you would not need branches. You still need branches because what happens is a typical example of a branches it is in a neighborhood location where we can just walk get your gold and feel safe about it whereas when the gold is picked up from home typically customer does not know where the gold is stored and it takes time to retrieve and get the gold back whenever customers need it. And our gold loan model is more in a smaller town near the SME or near the shops and small businesses and there are customers also where they can walk in, walk out and there is a comfort developed over here.

Anand Bhavnani: In terms of credit cost you mentioned that Q1 extrapolated should be a good indicator of what could be the full year, but Q1 had Wave-2, and let us for a moment if we assume Wave-3 does not come, because of the vaccination it might not be as severe, and even if it comes so then shouldn't our credit cost be lower than the extrapolation of Q1?

Nirmal Jain: So, what is happening if somebody else said that the Stage-2 has become little more lumpy and we see that some of the problems of these microfinance and business loan may continue to slip into second quarter and third quarter and we have some part of CRE book also left, so what you are saying is right, in a good scenario or in a little bit of optimistic scenario the cost may go down a little bit, but if you have to be conservative then we will say that okay then let's go by the trends of first quarter. So, first quarter is 165 crore, but in a long term as I said that we should be around 80 to 100 basis points so on a 43,000-crore portfolio we talk about 430 crore in a year so which is little over 100 crores in a quarter and what we are seeing here is 165. So, this is normalcy of long-term trend and I am not very sure we will achieve this in next few quarters or next year, but long term we should be there.

Moderator: Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

Nishant Shah: So, just again a question on gold loan what kind of competitive intensity if at all do you worry about? is it going to be from the bigger banks who are trying to become a lot more active maybe just a couple of them like SBI or ICICI or would it be more from say some of the microfinance only kind of companies which have become SFB and they have been talking about like moving one or two notches above in the customer segmentation because they have that geographic rural reach and the operative intensity that some of the larger kind of gold loan companies talk about, or is there just like just too much room and everyone will grow without any problem if you could just answer just like more qualitatively over a three year kind of point of view?

Nirmal Jain: I think it would be microfinance that would not make a major dent because how much you can lend is also function of your capital. So the smaller players with small capital whether they get into gold loan business, the size of the market is in terms of value and they would really not propose much of a competitive sort of threat to companies like ours because deep in we are not there right now and the market is very large. Also, there is one component of the market which is from where many people should get business from brokers and many jewelry shops and unregistered, unauthorized or those informal segment from where people borrow. So, lot of people still borrow from these mortgage, firm brokers or jewelry shops and nearby money lender which are not registered and that is where the practices are not up to the mark and that is still is a large component of the market. We do not have estimate, but still large component of that market is shifting to the organized players comprising banks and NBFCs, but between the two I think the banks may pose little bit of more threat because they have the balance sheet and the capacity to offer lower interest rate and they became more aggressive, but when RBI allowed 90% LTV, some of the banks had a difficult time because when the gold prices fell in March quarter MTM losses hit and some of them auctioned and created problem for customer and them also. So, if you are running a bank then gold loan by itself will not be a very large driver, but in terms of the operational intensity it is not a easy business because to test the gold and store the gold for just three months, four months is a small tenure so for banks also the ideal model will be partnership because these kind of operating cost is also huge it is not that people think that if the banks basically lended whatever rate they lend is not easy to recover the operating cost out of that because small ticket loan operating cost seems to be higher. So, I think market is very large in India there is a room for everybody, but to come back to the question to ask me between the two obviously banks will take more market share.

Nishant Shah: And just a follow up question on that so your average ticket size is about 60,000 which is in line with some of your larger peers would there be like a segmentation within this like say the top quartile maybe say 5 lakh plus in ticket size and therefore more at risk towards competition from banks could you talk about like anything about like just the gradient of customer ticket sizes that you operate with?

Nirmal Jain: So, the top segment is smaller part of our business and also the yield is lower there. it is not that bank have just started competing. SBI probably has much larger portfolio of gold loans which they classify as gold loan and agri loan and then there are all other NBFCs put together. So, they are always there in that business. So, incrementally there may be some competition, but I do not think there is a bigger threat there. The small sensitive thing about gold loan in business is the gold prices because if the gold prices fall then the loan book will also fall whether you auction or whether you recover we reduce because there is certain quantum of gold the customer can have. But that is the most sensitive thing about this business is if the gold prices fall then obviously everybody will be impacted in terms of business growth as well as the assets. Last year particular growth of gold loan is primary because gold prices went up so steeply.

Moderator: Thank you. The next question is from the line of Ashwin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

Ashwin Kumar: I just had a follow up to earlier question which somebody else that also act in comparison to the other NBFCs if we put it this quarter we have seen have lower stress, so while you have explained that the segments were present in like business loans and MFI in your smaller portion, but even if look at those segments as such I will compare the collection efficiency of your loans versus even what you have to put it the first wave let us say from July to September of last year Q4 of last year the collection efficiency seems better so just wanted to understand like the second wave like it seems that the incremental stress seems to be kind of lower in your case versus let us say the first wave, so what kind of contribute after that?

Nirmal Jain: Ashwin I think the second wave was very steep and swift to get over and there was no play book during the first wave. So, segment to segment I don't think the industry other players also have impacted, but other than that I am not really sure what comparison you are drawing, but you are saying basically that…

Ashwin Kumar: Even if I compare your collection efficiencies this quarter to let us say the second quarter last year first quarter is obviously heavily impacted by steep lockdown, but it is even better than Q2 of last year just wanted to understand?

Nirmal Jain: Significantly better. So, Q1 of last year was under a complete lockdown and everything was shut down, but this was not the case this year. Last year Q1 was worst then Q2 recovered. Q1 this year for any business segment is better than Q2 of last year for sure, but I do not know if you are hinting that other industry players Q1 this year is similar to last year Q2 I am not sure, but I do not think so. So, even for banks things are difficult in SME and microfinance, but overall, this year Q1 Wave-2 impact has not been as bad as the peak of wave 1 because of several things because not that entire country was underlockdown. People knew there the playbook, they knew what to do, but I am not sure of the industry numbers. I am just seeing the numbers on the slide 14 so maybe gold loan Q2 is 96 and Q1 is 94, but other than that I think things are better.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Just wanted to get a bit more sense on microfinance so given the experience of first two waves, how do you see the outlook for this business given all the fact that there are regulatory changes are there come up with draft regulations for NBFC, MFI, so how do you read into these regulations and given your experience in these two waves what is your aspiration for this business over next two-three years?

Nirmal Jain: RBI's regulatory changes basically are to make it more even and a level playing field with banks, like number of lenders are now restricted to 3 overall so these are all positive changes.

Venkatesh N: In terms of the regulatory changes because right now it is discussion paper in which could roll out into a policy subsequently. Definitely it is a welcome change for NBFC, MFI's I mean so long many of them did not follow the core of responsible lending if you look at the banks and other entities so once this comes in we have an even playing field with most of the players and I think we have a good prospecting of growth in this for us going forward actually.

Anand Bhavnani: And if you can give us some sense of how you are thinking about the business over next two-three years like what kind of percentage of loan book can they see and it is importantly how has our customer growth being over the last one year and in Q1 in Q1 disbursement is at 236 crore and last year we had disbursement of around 3,700 crore so how much incremental customer you would have added in FY21?

Venkatesh N: In terms of customers, we added around 2.2 lakh customers last year and this year once we had early warning signals of COVID the Wave-2. We slowed down business in the last fag end of April and we were catering to existing clientele. If you look at our clientele over a period of 18 months, 24 months they come in for repeat cycles. So, we were able to cater to our repeat cycle customers last year.

Anand Bhavnani: And how do we see this business growing whatever you have learned in COVID and you have more understanding of this business response to extreme stress what is the aspiration now assuming from here on it stays only better?

Venkatesh N: As Nirmal talked about COVID 3 we also anticipated not to be so severe and this business is being a very high contact business once we get back to the field we see the collection efficiency improving drastically. So, in the month of July we were able to get back to near normalcy, but in August and September we are confident of getting back our disbursals back into normalcy and moving things forward. Going forward for the financial year we are going ahead with opening of branches and we are looking at I mean if we look at in the last four years we have been growing at a decent pace we will be continuing to grow at similar pace for the next two years.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Nirmal Jain: Thank you and if you any more questions you can always get in touch with our investor relations or CFO department. Thank you so much have a good day ahead.

Moderator: Thank you. On behalf of IIFL Finance Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.