IIFL Finance Limited
(formerly IIFL Holdings Limited)

Consolidated Financial Results – FY20

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Management
Mr. Nirmal Jain – Chairman
Mr. R. Venkataraman – Managing Director
Mr. Sumit Bali – Chief Executive Officer
Mr. Rajesh Rajak – Chief Financial Officer
Mr. Anujeet Kudva –Chief Risk Officer

Rajesh Rajak: Good afternoon everyone. On behalf of team IIFL Finance I thank all of you for joining us on this call. I am Rajesh Rajak – CFO, accompanied by Nirmal Jain – our Chairman, R. Venkataraman – Managing Director, Sumit Bali - CEO and Anujeet Kudva – CRO. I will now hand over to our Chairman to comment on overview of the group strategy and plans.

Nirmal Jain: Thanks, and welcome to all the participants, all the investors. We have equity as well as debt investors on this call.

I think I would not take much time on COVID-19 because everybody has lots more information on this, but one thing is sure, that nobody knows what's going to happen in the future. So, the uncertainty has never been higher, and nobody has a clue as to what is going to happen and under these circumstances, we still have to plan for future.

This time, I think we have done a lot of internal brainstorming in our strategy discussion, even at Board level. So in our presentation, I will just take you through the few slides, which are different and which can be a completely different business model, a game changer, can be life changing for the business and further, I will take you through the thought process that we have.

So, if you already have presentation with you, I will be covering from Slide 20 to Slide 36

Today, in terms of risk, as I said, that the future is so uncertain, that nobody has a clue how and when things will sort out. So, on one hand, we have a virus and pandemic which is going to pan out in a way that nobody knows today and then on the other hand, we have response of Government of India as well as RBI. Till now they have provided for some liquidity. There are a number of schemes which have been announced. Many a times when they announce schemes, and the way they get executed, a lot of lessons in terms of the intent and the way execution happens. At the same time, there is nothing that government has done till now to make up for the loss of income of MSME or very small businesses that have been impacted.

So maybe in terms of risk, if you look at the worst-possible or worst-case scenario, and then there are 5 major areas that we identified. One is that the slowdown and the recession or depression, whatever you call it, in the economy, which is quite possible, can cause a significant deterioration in the quality of assets and in terms of business flows or the real estate projects, as well as maybe to some extent, home loan, can get impacted by this.

The two, NBFC liquidity crises have been there for now 20 months. Things got a little better in between, but they again deteriorated.

Today, the banks are risk-averse, and they perceive MSMEs to be risky businesses. So NBFC liquidly crisis may not have an easy answer or easy solution. Many times, when government pushes liquidity, it eases for a month or 2, and then something can happen, and again, it can get into a crisis. So, we are in a sector where liquidity problems can be continuous and perennial, and one has to really take that into account. Third, the negative sentiment of our financial sector has impacted the stock valuations, and obviously, that limits our ability to raise equity, even with significant dilution you can raise small equity, and that will never solve the problem.

Number four is now, its going to be an uneven playing field because as we have seen that not only in NBFCs, even in banks, the money and the deposit is flowing into a handful of banks, maybe 3 or 4, like State Bank of India on a large base. I mean, they are the largest bank. They are almost about 20%, 25% of deposits if I am not mistaken, there is 800% increase in the month of April. So if this kind of risk-aversion and polarization continues, there will be a handful of banks and maybe very few NBFCs that probably will have the liquidity and money, and some of those are getting money at very cheap rate; and there are many other NBFCs that are finding it difficult to raise any liquidity. So, this kind of uneven playing field can happen.

The fifth is, as the lockdown continues for a very long time, people are working from home, there are operational, information technology and cyber security and all kind of risks.

So in these 5 risks that are major risks that we talk about, let us not lose sight of opportunities and in fact, there is no crisis which has I mean, at least I still maintain that there haven't been any crises which did not have opportunities hidden in them.

One -digital technology and e-everything, whether it is eKYC or eSign, e-documentation, now is getting accelerated. Having invested a lot in digital technology and being pioneer in many of these technologies, we are quite excited by this. The paperless, physical presence-less loans, businesses and all those things can now become possible. Although technology existed, but there was reluctance & resistance to adopt it wholeheartedly. So, these things are changing.

Two, banks are getting huge liquidity. As we have seen, that there are Rs.8.5 lakh Crores of surplus bank moneys with RBI they are just earning about 3 or maybe 3.25% / 3.35% currently. Obviously, they cannot continue this kind of scenario for too long because their margins will be impacted and obviously, they'll have to find, even if they do not want to lend to NBFC, they would have to find retail assets because in the economy we are not seeing too many wholesale assets or wholesale projects asking for funding and they need retail assets butthey don't have the last mile connectivity with the customer, then companies like us with our huge network will be there in demand. I mean, we can source assets for them.

Then our third opportunity is unprecedented cost-saving opportunity. When people work from home, their whole and what we have seen in the last couple of months, we've saved a lot of cost. People are working, sometimes the productivity is higher because 30%, 35% of the time, they were losing in commuting they do not lose, it also allows you to do delayering and create a flatter organization because, in office, people think that 10 people may need a team leader, but then we realize that people working from home or a remote business, telecommuting and all those things, can save a lot of cost.

Fourth - the consolidation which will happen because of these kind of, as I spoke about, polarization of the funds as well as the confidence& trust and the capital constraint which will cause capacity contraction because many smaller NBFCs and many smaller private sector banks also, may find it difficult to continue their lending operations and therefore, those who survive will have opportunities because, on the supply side, we will see contractions whereas when demand side as things recover, hopefully expansion will again start.

Now the fifth thing is people, what we have seen in the last couple of months, at least in our group company that a lot of money has started flowing into mutual funds, stock markets, and many new customers have started coming to the market and actually, our hypothesis is that people are uncertain about the future, they start spending less and saving more. Then this creates a possible opportunity for companies like us, where all our branches are also named as loans and investment centers, where we get significant referral fee from the group company for cross-selling investment and insurance products.

In this kind of scenario, what do we do? So, in fact, the new business model that we want to work on, -it is pun intended, but it's also a name that we want to build: A COVID organization. The COVID, CO stands for capital-optimized and VI stands for value innovation. So, it is a capital-optimized, value innovation-driven organization.

So broadly what it is. We own the customer, but sell the loan. Then we have a revenue model which is a rising stream of spread income, or the difference between the yield and the cost, the rate at which we have sold an asset and the rate at which we charge the customer and also the cross-sell income because we own the customer.

In fact, as many of you who have been tracking the company would know that almost 40% of our loan AUM is already sold to banks and this is something, if we work on this business model, we can take it to, what our target could be, to 75%, 80%, and the remaining money can be just funded by internal accrual. Now we own real asset portfolio which is now down to 12%, we want to ring-fence it, and just be the sponsor to the fund or an SPV and try and release capital. Now this is what we started last year, but unfortunately, because of the COVID-19 disruption, this thing has got further delayed. But still as soon as things get normal, we have to complete this project and there are quite a few funds who are interested as we have an attractive yield, and of course, IIFL can be a sponsor for these kinds of funds or SPV.

So maybe broadly we target now, these are things which are unprecedented, but at least, we can say that we keep a 9-month target to forge bank relationships, align workflow, integrate technology and work out this completely new business model.

When we say capital-optimized, what does this mean? IIFL has a branch network of 2,377 branches, 430 were set up in last 1 year, which again, throughout the year, we had liquidity problem, but we are convinced about the retail credit in this country, and we kept growing, and 25 states, 600 cities and towns covered.

We can leverage our network to source the retail assets, and banks get relatively superior quality of assets, not only because of our network, but because of our expertise and understanding of the business and priority sector retail assets also. So, it becomes a win-win relationship, this is something that we can do with multiple banks.

So, it is a capital-light NBFC which owns the customer and we can do rapid technology integration because all banks have technology systems which are taken from large technology companies, or some of them are proprietary component. Our advantage is that we have 300 people team and all our technology is in-house and therefore, it has given us an advantage to integrate and be flexible.

Now when banks are acquiring assets using NBFC and they are very keen. We have seen in last 18, 20 months that they have been a leading buyer of assets all the time because they are flushed with funds and they do not have retail assets.

So there can be direct assignment of loan assets,RBI has announced an on-lending scheme, where they just fund us and then we become a priority sector for them. We originate assets and give it to them. There is also refinancing available from NHB, SIBDI and NABARD. Also, co-lending, which has not taken off, but there is another model, which is at the origination itself, we can give it to the bank, so in a way you act like an agent. But it is not a DSA agent, it is a lot more than that because what you are doing is credit underwritingas per banks guidelines and other parameters, plus you service the customers, you do the collection and throughout the life cycle of the customer you are engaged with the customer.

Of course, we have to redesign to meet the requirements of each partner bank. So, this is the capital-optimized model that I'm talking about.

In terms of value innovation, we just focus on a few products that are our core products-, home loan business loans and gold loans. We already have 4 million customers. If we focus on this, then we achieve scale. Now also we have seen that the flexible staffing, work from home can save cost. We have invested a lot in digital technology and automating the processes, so that gives us cost advantage.

From customer’s point of view, we become one stop shop. We can offer them all the loan products with the best rate because we have relations with the banks where we can get them for a high credit score customer, the best possible rate. We have a lifelong engagement with the customers and can sell multiple products to them and as I said investment products expertise is there in the group. We have a unique moat in loan origination and loan collection. Although there are many start-ups which have come and thought about this business model but we have been there for more than two decades in the industry and our physical network of such large number of branches gives us direct contact with the customer and understanding of how actually the credit underwriting standards have been implemented.

Our digital presence of website and App is also very strong. There are millions of people who have used or who use our app and website. We have a proprietary technology on Tablets, which works very well and gives a very high level of security because in this we have invested over last three years, so even our gold loans branches do not have any PCs or cables or wires, people work from mobile but they are very well controlled digitally and there are centralized paper-less processes. So, this is the moat that we have and loans, origination, collection all that we can do.

This business model is very ambitious. It is something which is in a way revolutionary and what is our dream and how ambitious this is if I can summarize what our dream can be to achieve in three years in three words, it may sound outlandish**,** it may sound very ambitious or even an oxymoron but if it works really well then you know we can become a debt free NBFC. So even if we do not achieve 100% of our dream even if we achieve 60%-80%, we would have created a completely different business model and which is so capital light. I started my career with Hindustan Lever and I can really understand and appreciate the pleasure and fun of working in a business where you don't need capital to grow the business, so that is the business model we want to work on.

One more section that we have added because there have been lot of concerns about the real estate projects that we have, so we appointed JLL and PwC to do a diligence in last quarter on each and every project and we appointed few more agencies to do them on a continuous basis and we have included certain analysis based on stage of project completion, the target segment whether it is affordable mid income or high income, the geographical distribution, the developer track record and also sensitivity to price fall which can happen because of COVID and resultant slowdown in the economy.

So, if you really look at very broadly as we even go through the slides, I will not take much of your time but 92% of projects that we have financed are residential and therefore our vulnerability to commercial price fall which is now feared more is much lesser. 60% of our projects are in advanced stage of completion and these are the project by project details that we have worked out, 76% of projects are affordable where the unit value is less than Rs. 50 lakhs in most of the cities like Bengaluru, Hyderabad less than Rs.1 Crores in Delhi and Bengaluru, Kolkata but in other cities less than 50 lakh and in Mumbai less than Rs. 2 Crores, so this is the classification of affordable housing.

Suburbs of Mumbai and Gurgaon which have been high velocity regions they account for 52% of our funded projects, 93% of developers that we have funded have more than 10 years of successful track record and 97% of funded projects even if we provide for say 25% fall in the real estate prices of Mumbai or if commercial prices fall by 20% or any correction like this then also they will have a cover of more than one time for our loan and interest there on. So, this was a little bit of deep dive of real estate projects that we have.

I will hand it over to Rajesh, our CFO to take you through little more general details of our financers and then we can open it for Q&A. Thank you.

Rajesh Rajak: Thank you Nirmal. I will just give you all brief update on the business liquidity and the COVID impact and other sections.

On the business side, IIFL Finance net profit was Rs 216 Cr in 4QFY20, up 16% QoQ and flat YoY, net profit was at Rs 756 Cr in FY20, up 8% y-o-y (excluding one time impact of COVID-19 provision Rs. 211.1 Cr. (net of tax) and deferred tax asset reversal of Rs 50Cr.and gain on divestment of CV business Rs 94 cr).

Loan AuM grew 9% YoY and 5%QoQ to Rs37,951 Cr. Core segments grew faster at 12% y-o-y to ₹32,773 Cr. Retail loans, including consumer loans and small business finance constitute 88% of our loan book. Our Tier-I CAR stands at 13.6% and total CAR at 18.2%. Primary drivers of our AuM growth are Gold loans, which grew by 47 %YoY and Micro-finance loans, which grew by 49%YoY. On the other hand, developer and construction finance, and Capital Market loans declined on YoY basis. In home loans, our focus remains primarily on small-ticket loans to the salaried and self-employed sections. The fastest growing segment in home loans is the affordable home segment, or Swaraj loans, with average ticket size of INR 13 lakhs. IIFL Home Finance has been a significant player in PMAY-CLSS. Till date it has provided benefits to 38,300 customers and disbursed subsidies of nearly Rs.900 Cr. Another strong characteristic of our loan book is the large proportion of loans that are compliant with RBI's priority sector lending norms. About 63% of our HL, 48% of Business loans and 91% of our MFI loans are PSL compliant. In aggregate nearly 43% of our loans are PSL compliant. The large share of retail and PSL compliant loans are of significant value in the current environment where we can sell-down these loans to raise long-term resources.

Our average cost of borrowing at 9.4% for the quarter remained flat Q-on-Q and for the year rose by approximately 40 basis points. We added 430 new branches during the year taking the total to 2,377 branches. Consolidated gross NPA and net NPA recognized that as per RBI prudential norms and provisioned as per ECL described in Ind-AS stood at 2.31% and 0.97% as of March 31, 2020. This was against 1.96% and 0.63% as of March 31, 2019.

Provisioning coverage including standard assess provision under Ind-AS norms on stage 3 assets was 128% for the quarter. Coverage excluding the addition provision made for COVID impact still stands at 88%. Return on assets on for the year was 2.2% and ROE was 16.9% excluding impact of 1 of items.

A brief update on liquidity: we raised raised ₹1,699 Cr through term loans and refinance from banks.

During the quarter we also raised $400 million or Rs.2,855 Crores through our medium term note issue. We continue to have nil exposure to commercial paper. Our funding mix is well diversified including 28% from NCDs including sub-ordinate debt and MTN issue, 35% from bank term loans, working capital finance and NHB re-finance and 33% from securitization/assignment

We completed securitization/assignment transactions amounting to ₹2,308 Cr in Q4, compared to ₹2,382 Cr in Q3, ₹3,721 Cr in Q2 and ₹4,595 Cr in Q1. We sold down both PSL and NPSL loans in five product categories including HL, LAP, SME, Gold and Micro-finance, to government, private and foreign banks during the year.

A brief update on COVID impact: As of May 25, 2020 58% of our consolidated book was under moratorium. An additional provision of Rs 282 Cr was made based on increasing PD by 20-25% (depending on the product) for retail products. For wholesale products, PD was increased based on a one-notch lower credit rating and increasing LGD by 20%.

As lockdown starts to lift and as and when RBI and Govt. measures start reaching end customers, we expect things to start improving

Brief update on Digital: We have continued our focus on digitization encompassing every aspect of the customer loan journey. During the quarter, we launched one-click digital personal loans to help customers with a good track record with their short term funding needs. We are also offering our existing home and gold loan customers top-up loans through an end-to-end digital process. IIFL Loans App is being increasingly used for various transactions by customers and has been especially beneficial during the lockdown, giving customers ease and convenience of access. We have about 1,50,000 avg monthly active users on the app and have maintained ratings of 4.0+ on android and ios.

In Analytics, In analytics, we continue to drive the use of credit decisioning engine, artificial intelligence and machine learning through behavioural, collection and fraud score-cards. There is continued focus on cross-sell and win-back, with our analytically driven 'Gold Loan win-back' generating strong volumes for both Gold business as well as group-wide products. During the quarter, we also increased our efforts on campaigns related to promoting digital collections & digital disbursements

We will now open the floor for questions

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Prasheel Shah from Cap Grow Capital. Please go ahead.

Prasheel Shah: Could you throw some light on how you reached this COVID provisions up to Rs.82 Crores? Some steps that you would have done for your business segment apart from the real estate.

Anujeet Kudva: So, when we did our COVID provision, we did a detailed analysis of our retail portfolio. So within the retail portfolio, we increased our PDs by about 20% to 25% and when we looked at our wholesale portfolio, we did a case-by-case analysis and there, again, the PDs and LGDs were increased to give impact to the amount of stress which could likely arise due to the COVID.

Prasheel Shah: What about your business loan, the small business loans?

Rajesh Rajak: Within the small business loans, we increased the PDs by 25% for the unsecured bit to factor in perhaps increase in our future probability of defaults.

Prasheel Shah: could you also share what percentage of your business loans or microfinance would be in the financial services? Could you give us some idea of what kind of loans you've given in the business loans and on microfinance?

Sumit Bali: Business loans are pretty granular. These are mostly sub 15 lakh loan and these are also covered under the CGTMSE scheme from SIDBI and these are close to about 19% to 20%. Overall, the book comprises 2/3rd of loan against property and 1/3rd against business loan. Your second part of the question was on micro finance that is largely for income generation activity for self-help groups comprising of women.

Prasheel Shah: I have question on liquidity front, so on your slide# 3 you have said that you have bank equivalent of 1,900 Crores and undrawn credit lines of 3,500 Crores?

Rajesh Rajak: The 3,500 Crores as on March 31, 2020 that slide explains that, and 2,200 Crores in slide #29 is as of May 25, 2020. Some of those lines would have been used to repay debt in April and May.

Moderator: Thank you. The next question is from the line of Varun Agrawal from Factorial. Please go ahead.

Varun Agrawal: Thanks a lot for your time on this call. Again I wanted to take you back to slide 29, can you please run us through the various potential scenarios in this with respect to both the MF insurance and the banca, how do you see this panning out and in addition to this would also be useful to get some scenarios from you on the asset side, so I am basically looking at your net funding situation and how do you see that panning out given the moratorium which is there in the book again nobody has full visibility on when the lockdown ends but what are you seeing and how are you looking at it? Thank you.

Nirmal Jain: There will be lot of uncertainty about whether NBFC are getting moratorium or not, so the industry has been representing to government as well as RBI. Several representations have happened because very unfair that RBI makes blanket announcement so that all NBFC customers can take moratorium but NBFCs do not get moratorium from their principal lender –banks. But most of the banks now I think are looking at moratorium favorably, some of the banks have agreed, some of the banks are processing it, so what we have done in this chart is that we have separated the loans which are due to banks and financial FIs and institutions like NHB who will also form part of same pattern and then there are loans repayments in mutual funds and insurance companies where the bonds and NCDs or may be the public issue ,so the bottom blue chart is something where we cannot see any moratorium possibility but the upper part is basically loans which are due to banks where I think most likely the scenario now will that the moratorium will be given, so if you look at for July for eg, we have 286 Crores due to mutual funds and insurance companies and we have 1,271 minus 286 is what is due to banks that is where we are likely to get moratorium. So, if you really look at it if we get the moratorium from the banks then our liquidity will cover beyond December 2020. If we do not get any moratorium it might be up to September till now whatever we have or anything in between, so this is how the chart is

Varun Agrawal: But this state assumes zero inflows from the asset side right? Because this as per your executing plan?

Nirmal Jain: Zero interest on asset side and also we have operating cost of running the business. But we are also a going concern so we also continue to give some new loans but hypothetically if we stop disbursing and we only collect the EMIs from our existing loans – say about Rs 250 Cr per month - then net basis will have Rs. 250 Crores to Rs. 300 Crores coming from EMIs even after moratorium.

Varun Agrawal: and your ongoing cost per month?

Nirmal Jain: Fixed cost will be around 70 Crores to 80 Crores may be that will also get rationalized now.

Varun Agrawal: That was very useful. The other question that I had is with respect to the various schemes that the government has announced. It was starting with the TLTRO, etc., which did not really have the desired impact, and then they have announced subsequent schemes. So, can you give us some sense of what could be the impact on you as an NBFC? I am not talking about your eventual customers. But as you as an NBFC, how are you looking at it?

Nirmal Jain: there are a lot of different schemes and we, as an NBFC, are reasonably well placed because theres one scheme only for AA and lesser and not for AAA. So, we are AA-stable rated, so we obviously can tend to benefit from that. So, there are a number of schemes, so there is TLTRO, and the Rs.30,000 Crores in liquidity finance for NBFCs for three months but might get extended. Why they give us three months is so as to meet the moratorium equivalent. There is Rs.45,000 Crores of partial guarantee scheme, a different format where earlier partial guarantee was only for a pool or where we are selling certain assets to bank, but this can be even for bonds or securities issued by NBFCs and on top of that, there is Rs.3 lakh Crores of MSME working capital loans which can be guaranteed. So there, to our existing customers where we give an MSME loan, we can give them some 15%, 20% additional loan, and that is top up loan and the last line loan is guaranteed by the government. So, there are various schemes, the final guidelines are coming. Then, of course, you have more TLTRO. All these things put together, I think, fairly there is a very positive light in next few days, next few weeks we should have some good liquidity coming in from banks and some other institutions.

Varun Agrawal: Do you have sort of like very rough ballpark numbers? I am not tying you to any particular number, but just one of just like you have very nicely illustrated in the Chart 29 about various liabilities, is there any sort of range you can give us on what additional sort of direct benefit you can get from this excluding the Rs.3 lakh Crores MSME working capital guarantees, because that probably goes to MSMEs directly. But as far as you are concerned, is there any scenario you can give us?

Nirmal Jain: Yes. So, from all these schemes, we really do not know how banks will process these applications. But maybe Rs.2,200 Crores we should get and on top of that, we also have the - normal applications, which are about on-lending as well as in our term lending, which is in the normal course. So I think our target would be to raise Rs.5,000 Crores to Rs.6,000 Crores in the next 4 to 6 weeks and keep that kind of buffer, so that we can continue to grow the book and feel comfortable with that.

Varun Agrawal: Sorry just to understand that what you mean is that this cash and undrawn line cushion that you have 2,200 Crores, you would hope to get it up to 5,000 Crores to 6,000 Crores in the coming weeks, am I right to understand that?

Nirmal Jain: Yes. 5,000 Crores to 6,000 Crores yes right.

Varun Agrawal: Thank you so much. I am done.

Moderator: Thank you. The next question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.

Anitha Rangan: Just few questions here. As of now you have said that 58% of your customers have availed moratorium so once the moratorium is off by when do you expect that 100% will be restored say between August to December or August to March, when do you expect it to be restored?

Sumit Bali: So, figure is as of end of May. Our sense when we reach out to our customers, specifically I think they are expecting liquidity but they want some kind of opening up. I think once this 3 lakh Crores reaches the end customers, you will see that number of customers who avail moratorium will reduce in next quarter going forward. Gold we have already started seeing activity which is picking up. gold now the LTV is historically low as the gold prices have gone up, so we expect probably after three months sometimes at the end of the three months once situation should be pretty close to normal. Microfinance would take anywhere around three months to five months is our take, so my sense I think two quarters from now we should be about 80% odd of normalcy returning on the collection side.

Anitha Rangan: You spoke that you also have to do some kind of disbursement, so is that like part of your contractual obligation for the money which you have to disburse or it is like even like normal course of disbursements?

Sumit Bali: So we have had some disbursement linked to construction under the home finance vertical. Now given that the construction will be delayed, that also would get delayed and then we do not have too much of undisbursed or sanctioned lines, there is some in the real estate book, but very insignificant.

Anitha Rangan: Sir your disbursement which is like you have to like do especially when it comes to construction finance per month?

Nirmal Jain: No, that is a home loan. That is supposing you bought a home for Rs.25 lakh, they give 20 lakhs loan, so building is under construction so with every slab you have to keep paying, so we have to keep disbursing accordingly. So if we've given 80% loan, with every installment that you pay to the developer, 80% comes from the lender. But these things are very small. They are not really significant compared to our total book.

Anitha Rangan: Okay and just one more, out of this 1,169 Crores which you have refinanced in Q4, how much would be like refinance of one existing term loans are over and you get that substitute of the new loan or working capital refinance and how much would be new fresh sanctions say new banks or completely new term loans?

Rajesh Rajak: I did not quite get your question. Are you asking how much is renewal and how much is fresh loans?

Anitha Rangan: Yes, how much of it is fresh loans, ?

Rajesh Rajak: Most it is fresh disbursement

Anitha Rangan: Okay and just one final question, what are your thoughts on securitization because you have been doing securitization at a very robust manner until Q3, what are your thoughts because Q4 you have not been able to do because of COVID and so on?

Nirmal Jain: So mostly securitization practices consummate towards the end of this quarter. Unfortunately in Q4 suddenly it came to stand still on March 20,2020 and our pipeline got little delayed, we could still complete a few but I think now most of the banks are trying to work completely digitally and even without physical interaction, but I think they will gain momentum as things open up. Normally, what happens, is the securitization transactions will have rating agency involvement, or sometimes, when we have our auditors, sometimes there is random checking of KYC files and the borrowers. So, all these processes, they work in a normal environment, but they slow down because of the lockdown.

Anitha Rangan: Thank you.

Moderator: Thank you. The next question is from the line of Siva Kumar K from Unifi Capital. Please go ahead.

Siva Kumar K: Thank you for the opportunity. With respect to the home loan segment, what will be the salaried and self-employed bifurcation?

Nirmal Jain: 58% of AUM is salaried, 42% is self-employed.

Siva Kumar K: Sir in business loans, you said two-third are secured while one-third would be unsecured, is that right?

Nirmal Jain: Yes, that is right.

Siva Kumar K: Okay and Sir what is the rational for giving a moratorium by default because that seems to be the reason why we are seeing a higher number or higher percentage of the AUM getting into moratorium and have you extended this moratorium till August again by default?

Sumit Bali: We have asked the customers for opting in, so we have given them a choice, so that is the protocol we are following and the number we said 58% is as of May end and the next quarter we will get to know in about two weeks' time.

Siva Kumar K: Within business loans is the moratorium higher in the unsecured path or is it equally distributed between secured and unsecured?

Sumit Bali: It is slightly higher on the unsecured part.

Siva Kumar K: We see that in terms of GNPA, business loans have again spiked this quarter. Is that structurally worrying you in terms of how the asset quality has been performed over the last few quarters, business loans?

Sumit Bali: So, when you look at it, a) even before the COVID, the economy was soft. Post that, there has been further impact. Now given that two-third of the book is collateral-backed, which roughly runs at about 60-odd percent of LTV, and we assess cash flows on the customer while giving loans, though it is on the past situation and again, the one-third business which is a business loan is a higher-margin business. So, this is a business where there will be some pain in times to come because these are loans given for generation of income. So last 2-odd months of closure of business activity would result in some pain in this segment. But we are also watching it closely because this Rs.3 lakh Crores, which is roughly 20% of the entire outstanding, once it reaches the customer, it will help them in restarting their business, and ease the cash flow for them because it has a staggered repayment schedule. So, we will have to wait and watch as to how things open up, how much time it takes to get to normalcy. But given that we have two-thirds of the book secured, one-third having higher margin, we are not unduly worried on this segment as of now

Siva Kumar K: The entirety of the business loans would qualify for that Rs.3 lakh Crores scheme?

Sumit Bali: Yes.

Siva Kumar K: Finally, one question on the construction finance book. We see that it has increased by 2% on a sequential basis, but the understanding was that we would actually bring it down over the next 6 months. So, should we actually expect increase in the construction finance book going forward?

Nirmal Jain: No, there are some disbursals that happened based on where the pending approved amount is there and disbursals happen with the approval and with the progress. But what happens is that the collection was impacted in last 10 days of March and many of these installments become due in the last 10 days, and that is what has impacted this. But it is unlikely to rise, actually, with some resolution of some projects getting kind of moved. It could have fallen, but for certain lockdowns and things that came to a standstill. So, under normal circumstances, it should start tapering off.

Siva Kumar K: Sir, what is the yield level for the gold loan book?

Nirmal Jain: 19.4%.

Siva Kumar K: That's it from my side. Thank you.

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

Shubhranshu Mishra: Some of my questions have been answered. My question is about the gold loans. Have we offered moratorium to our gold loan customers?

Nirmal Jain: In case of gold loan, the branches were closed for more than 2 months. Now they just opened. So normally moratorium becomes automatic because even the customer wants to pay digitally, but he would not do that till he is getting jewelry back, he/she. So almost 82% of gold loan, if you see our slides, they are in the moratorium. But as the branches open, now last one week and we have seen a lot of traction on this almost 90% of our branches are open, customers are coming back, and hopefully, the moratoriums will go down now actually and many customers will just pay their interest and release the gold also.

Shubhranshu Mishra: No, my only question here is that, how can we offer moratorium on gold loan because moratorium is only to be extended on term loans and not on bullet loans, or bullet repayment loan? As per the RBI regulation, you cant offer moratorium on gold loans.

Nirmal Jain: First of all, gold loan has multiple products. Not necessarily should be a term loan or a bullet loan because gold loans they are repaid in monthly installments also. In this case, I don't think there is a restriction on bullet loans versus term loans and most of our gold loan customers are also small businesses. They basically take a loan against a collateral of gold.

Shubhranshu Mishra: No, I understand that. But gold loan, the understanding is that it is a bullet loan. RBI clearly mentioned that the moratorium is to be extended for a term loan and not to a bullet loan.

Nirmal Jain: A bullet loan is also a term loan. I do not think bullet loan is exclusive of term loan. So, term loan can be paid in a bullet manner or it can be paid by EMI installment. Many of them, even if they borrow from banks, is a term loan but pay bullet. So, bullet loan is a part of term loan.

Shubhranshu Mishra: What is the outlook on the gold loans as we go forward into FY2021? What kind of growth?

Nirmal Jain: Very positive. Gold prices are holding up high and as people need working capital to start their businesses or because they were impacted. But I think gold loan outlook is very good.

Shubhranshu Mishra: Would you see a volume led growth or a value led growth?

Nirmal Jain: Both.

Shubhranshu Mishra: Thank you.

Moderator: Thank you. The next question is from the line of Lucinda Zhou from Allianz Global Investors. Please go ahead.

Lucinda Zhou: Thank you for the presentation. My question is pretty similar to Anitha. I mean, it has been answered previously on the gold loan. Just the mind to understand also the percentage of AUM under moratorium for this gold loan that is actually pretty high as compared to one of your peers who have already announced results. Can I understand why? Is there more or rather less people paying via online apps? Or how do you see that?

Nirmal Jain: Can you share the number?

Lucinda Zhou: They mentioned that gold loans on the moratorium, is a lot. I mean, it was on an article , and they mentioned that more people are willing to pay gold loans because so they do other loans as well, right? But more people will need to pay gold loans than other loans because the LTV ratio is pretty low and on top of that, they do not want that interest to roll on as well.

Nirmal Jain: So, what you are saying is right. But this has come under moratorium in this period because the branches were closed, branches were shut. So, by default, they got into moratorium and also what happens that in our case, most of the loans, we collect interest on a monthly basis. So, we had to put them in moratorium, and most of the customers would electronically agree for that. But as I said that since last one week, branches have started opening all over the country again. And we are already seeing there is a footfall of customers coming back and paying interest , and within the next few months, you will see that the moratorium percentage in gold loan will go down significantly.

Lucinda Zhou: Then my next question is regarding your cost of funding. I mean you mentioned about the cost of funding as of end of March. In the last 2 months and the worsening of the COVID situation, we have also seen some onshore funds being closed. So, can we get a sense of how it's affected your cost of funding and also in terms of the ability to access the market?

Nirmal Jain: Cost of funding has remained stable. In fact, this last year, 9.4%. So, when we get refinanced from NHB and other institutions, we get them in a very good rate. Banks also, although they have been little, so the entire decision-making process has been stalled. So, most of the banks have been waiting for the clear indications from government and RBI about who is going to underwrite the risk. So, it is not that they have said no. But fact of the matter is that new rules have been very slow in the last two months. We have raised some money, but not enough. But as we speak, and what we are seeing is that since last few days, last one week or a little more than that, most of the banks have become positive. They have started looking at the proposals. They have started sending queries to us and it looks like, it appears that in the next couple of weeks, we will see good flow of money coming in on new loans.

Sumit Bali: Just to add to that, last quarter, 9.4% also includes the cost of funding for the MTN program, which was higher, and that is an important diversification and was our maiden issue. So overall, as banks constitute larger and larger funding portion, the rates would be going, down going forward.

Lucinda Zhou: Thank you.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Funds.

Vivek Ramakrishnan: Good afternoon. Very good presentation. I would start with the strategic question. In terms of automation, whether it is origination institute, do you feel like you face any resistance because banks have already put in their infrastructure, and they have their political infrastructure and so this getting a product from another institution is something that there will be internal resistance, and that is why it's not taking off? Related to that is, in terms of the home loan business, and it is a long tenured loan, and NBFCs are generally not able to get over three years, four years at the very best. Is it best that this business moves to ultimately related organizations and banks?

Nirmal Jain: Come again?

Vivek Ramakrishnan: It is a long-tenure business. I mean, when you give a home loan, it is a 15-year loan or a 20-year loan and NBFCs typically do not get that kind of tenure unless it is NHB finances, or one its regulatory bodies. So, is it best this business actually moves more to AAA organizations and banks, we see a lot more of home loans and keep it on the books?

Nirmal Jain: Let me answer both parts of your question. First, is that banks are expanding their infrastructure to give more loans to SME and they can source on their own. If they could, the 8.5 lakh Crores, which is a hell lot of money for banks to have a negative carry and put it back with RBI at a reverse REPO rate. Also, the short-term GSEC rate has fallen below even reverse REPO rate now, the 6 months GSEC. So, the fact of the matter is that, so no bank would like to carry liquidity ,less than their cost of funds, obviously if they could lend. So obvious, this country is very large and the last-mile connectivity, the number of people, companies like ours employ 18,000 people. So, if somebody wants to replicate that kind origination, probably will need as many people and we can say 5% more or less efficient, but we need 18,000 people to replicate what we do. We have got 2,300 physical locations all over the country, obviously. So, the fact of the matter is that the network, whatever banks have and NBFCs have, NBFCs loans in the system is 25 lakh Crores, we are talking about approx. $30 billion. So NBFCs as a network is very large and also banks have large network, but they still cannot reach out to everyone and that is why banks have been willing to buy assets from NBFCs. So, they are trying to do as much as they can. But, they obviously, cannot double or triple manpower strength overnight and so that is one. Secondly, housing finance going to AAA, no country, no economy, no system, you can only have AAA because it has to be normal curve within the country, there are different types of risk assets and everything needs to be financed. So, imagine, even in a bank, that is what I was saying, there is a polarization, there are only 2, 3, 4 entities remain. Some of the AAA entities are there, maybe 1, 2, 3 or whatever, a country as big as this can never achieve a $5 trillion economy. Also, what happens is that most of the customers would not qualify for this. 90% of borrowers, I guess, would not be AAA in terms of their credit score or whatever. Most of them still repay a loan and they meet criteria. But, lets start with corporate borrowers, whether they want funds for project expansion, then there are MSMEs, who want to borrow for their businesses or individuals who borrow for personal need. If you restrict to AAA, just to give you some data points, out of CRISILs 10,000 rated companies, only 1.5% are AAA. 98.5% are not AAA. Then I think it will be a disastrous situation for the economy.

Vivek Ramakrishnan: I would not belabor this point. What you are saying is logical in the sense that if you look at the NPA of a bank in terms of SME loan, versus the NPAs by private sector bank or NBFC it is much lower. It is a logical progression. But somehow and I hope that progresses. Home loans, what I meant was, this search for liquidity, I mean, 25 lakh Crores, because given the situation of NBFC getting abundant liquidity and current story at the moment. But I like your covert strategy, which makes it capital-light model. But I will move on to the next question.

Nirmal Jain: Liquidity from NHB, whether like HDFC Limited, takes refinancing from NHB or we take it, we get it at the same rate. It is based on the underlying portfolio, and not based on the rating of the housing finance company. Our portfolio is very affordable. Some of the loans, we have got at 5.5%, 6% also based on the underlying portfolio.

Vivek Ramakrishnan: No. I agree. So in the sense there will be that component of regulated finance and in fact, in TLTRO also, we believe that the regulators, it is NHB-SIDBI kind of loans which are going to play a bigger role than anything else but more or less, and again, I just want to hear your thoughts on that. In terms of home loans, as well as microfinance, there has been the jump in gross NPLs. I wanted to ask whether there is a difference in salaried and non salaried segment and urban and rural microfinance?

Nirmal Jain: I think there has been an industry-wide impact. One is that the 30 days or 60 days delinquent assets on March 1, 2020 got classified as this, but many of them under normal circumstances, would have got resolved. So the culture and this is how the industry has evolved, that people know that up to 90 days is not NPAs, and they might pay between 80- and 90-days. Secondly, even before COVID, there has been a bit of a slowdown in our liquidity, there's constraint all over. So, what we are seeing is an industry-wide phenomena. But having said this, we fare far better than the industry averages on the peer book. So, if you put in a tabular format and look at the deterioration in quality of assets of our company against others, you will find that we did much better. Like in MSME, our GNPAs have gone about to 3.5%. But the banking sector is at around 15% and the Mudra loan is more than 20%. If you look at the average ticket size of our loan, its more comparable to Mudra loans Rs.4 lakh, Rs.5 lakh loan typically. The medium size of the loan I am talking about. It is a process, which is a credit underwriting process and also your collection infrastructure. Then in our branches, you have young people who go and collect more of the cheques and your digital infrastructure in terms of how do you digitally engage customers and make sure that our collections happen, your underwriting standards, which use lot of analytics. So, there are various things that go into this.

Sumit Bali: You also had a question on microfinance. So, microfinance, the increase primarily is accounted by what happened in Assam, so we stopped doing business there. We have an insignificant, about 2% portfolio there. But there was an issue there. Also, with the Mangalore region in Karnataka, so those two impacted it this quarter, rest all, most of the book is for income generation to rural customers. So therefore, we are fairly confident that this set of customers always had very good intention to pay and they are very resilient even in the face of floods, cyclone, they have come back and this time around, the disruption on the economic side is not too severe in the rural area. So, we are fairly confident that as and when teams can operate, meet customers, this segment will also recover pretty quickly.

Vivek Ramakrishnan: Sumit, that was very useful. The last question is since your COVID strategy is kind of as tricky putting like Dilscoop in cricket, let me ask this question, in terms of RBI has come in support of banks in a big way and one bank faced problems they told please do not take deposits away from private sector banks but NBFCs have never got that kind of support, is it possible that also you might look at the banking strategy going forward, so you have said that of course only few banks have gotten deposits but by and large things are stable than NBFC models?

Nirmal Jain: No doubt about it actually so we'll naturally evolve into a bank and opportunity will be there to have a very new age, new era bank which can be far more digital, far more customer centric and much more lighter not only on the capital but on the cost also so we look at the opportunity and in a way based on our COVID strategy if we work very closely with banks and meet the banks credit standards, the bank process then the transformation will become easier for us.

Vivek Ramakrishnan: Thank you very much. It was a very good presentation and good luck.

Moderator: Thank you. The next question is from the line of Kush from Mahindra Mutual Fund. Please go ahead.

Kush: Thanks for the opportunity. Two quick questions. Just to reconfirm IIFL Home Finance announced Rs. 15 dividend, right?

Nirmal Jain: Yes.

Kush: So, just wanted to understand the rationale?

Nirmal Jain: So, IIFL Home Finance is a subsidiary IIFL finance so that dividend comes to the parent company and the parent company had already announced dividend in the month of March.

Kush: Right, so I just wanted to understand the rationale of first infusing equity into home finance business and then taking out 35% of the equity the next year and dividend so just wanted to understand the rationale?

Nirmal Jain: I am not very sure of this number of 35% because the dividend payout is around 15% to 35% as per our dividend policy, one. Two, the track record of dividend also helps, I mean this is now what you are saying is a logical question but the way it happens is that when you go to banks, when you to LIC, NHB so in that application these formats are designed years ago, they look at your track record of profit and dividend. They will build a track record of dividend. That is one.

Second, is that home finance is more than 50% of our business so in the parent company whatever dividend we have been giving we do not want to reduce it so it is better that we get dividend from the subsidiary companies in the proportion of profit make rather than the entire dividend going only from the standalone which is actually now a smaller business in the entire group.

Kush: Right. So, my concern was in FY2018 as well as in FY2019 we had nothing so IFL Home I think hardly announced anything and in FY2019 itself, I think?

Nirmal Jain: It is a good observation but as long as outside shareholders are concerned the dividend which has given by the IFL Finance matters and internally that can be given out of dividend received from subsidiary company or out of standalone profitability but as we have seen that the subsidiary businesses like microfinance and housing finance have become larger so we have to upstream the dividend so that we can maintain our dividend track record at the parent level to the extent of the shareholders.

Kush: Okay and next one for the RE book so what I understand is around 61% of our book has opted for moratorium, so just wanted to understand what percentage of the balanced 39% could be in natural moratorium?

Nirmal Jain: No, because everybody does not have to opt for moratorium and so it depends on how the whole crisis is unfolding. So actually on March 31, 2020 only 11% were under moratorium but now in the last two months more have opted for moratorium. Balaji, do you have any colour on this?

Balaji Raghavan: Just to answer that, the balance book what they are talking about is that, all our RE loans are interest payable quarterly so there was no moratorium on that so that continues to be so for the balance book, the only ones which have opted for moratorium is as you mentioned rightly that percentage which you said the balance continues to service debt.

Kush: Thank you.

Moderator: Thank you. The next question is from the line of Sneha Sarawagi from Barclays Investments. Please go ahead.

Sneha Sarawagi: I just wanted to know what would be the percentage of digital collections you had pre COVID and what is it now?

Nirmal Jain: During COVID it has been digital collection because physically nothing was working from March 20, 2020 till very recently.

Sneha Sarawagi: Prior to COVID?

Nirmal Jain: Prior to COVID our business loans, home loans are more or less fully digital or direct bank transfers from the customers, very small part on the cash collections. Gold loan only one area where we can have physical collections, so 20% of gold loan is digital and 80% is physical but we are making very concerted effort to increase this 20% to significantly higher number by incentivizing and educating the customers.

Sneha Sarawagi: Thank you.

Moderator: Thank you. The next question is from the line of Aswin Balasubrmanian from HSBC. Please go ahead.

Aswin B: Just wanted to understand the difference especially on the liquidity on the slides, there are two slides which is 29 and 30, one is on debt repayment schedule and the other is on ALM, I am just looking at the outflow numbers in the ALM slide versus the repayment numbers which are mentioned on slide number 29, so I mean I am not able to understand the difference between the repayment?

Nirmal Jain: So, the repayment slide is up to December 2020 which is just about six months to seven months and the ALM slides is for five years and longer.

Aswin B: Right but even if I look at let us say outflow in the next six months that shows at about 6,300 Crores in the slide 30 and in slide 29 if I look at let us say till November 2020 it shows?

Nirmal Jain: So, that is only debt obligations so that does not take care of any operational cost and other cash flows that we will have. So there may be small difference there.

Aswin B: The outflow which you have mentioned does that include securitization also?

Nirmal Jain: That is right. So, the full liquidity slide will have the securitization outflow also but that we collect from the customer and give it to banks, kind of a thing so that will have inflow and outflow both.

Aswin B: Right and just want to understand on this securitization piece, like given the customers opted for moratorium and let us say particularly in some of the short tenures loans like gold loans which give securitized, I mean how does this work because do you have to repay the bank or the holders of the loan?

Nirmal Jain: What happens is because when you assign, cash flow is whatever we get from the customers that only the banks will get and so there was a bit of confusion on this in terms of how the pools will get rated or whatever because the securities come under SEBIs purview so there have been some clarifications but as far as we are concerned ,so suppose if I assigned a loan then it becomes as good as bank loans so if customer does not pay banks do not get it.

Aswin B: My other question is on your capital, so your overall capital adequacy is come down to about 18% earlier to X plus 20% so any reason for sharp decline in the past quarter?

Nirmal Jain: Yes, couple of things that have happened, one is that the few securitization transactions also got delayed, postponed and you see a sudden increase in the AUM and the loan on the balance sheet. Secondly, the investment in subsidiary gets knocked off so we have some room to rationalize and optimize there, whether it is the equity, debt, or the guarantees given. So one is that as the business grows it might come down and the dividend payout also happens in the last quarter and also there is a huge COVID provision so the normal surplus which gets added is also low so all these things put together have impacted. So, the profitability for the quarter is very low because of the COVID provision and there was a dividend outflow and on top of that the securitization project got delayed so all things have combined and it has come down to 18.2% but it will improve little bit, I mean based on plans and targets it should move up as things get normal.

Aswin B: Okay but why would that be?

Nirmal Jain: So, you have internal accruals which will get added and dividends which we pay in March quarter, and also the assignment transaction.

Aswin B: Securitization part will still persist.

Nirmal Jain: Yes, will persist that basically will take certain assets off balance sheet and as I said that certain subsidiary companies' investment also will try and structure in a manner that the capital, as I said the last quarter was a little extraordinary because of sudden disruption but the internal accruals, the securitization and rationalization of subsidiary investments all these things will help us to improve the capital adequacy a little bit.

Aswin B: Again on securitization, see what I understand like going forward do you expect banks and other players to participate enthusiastically because I mean given the moratorium and worry on the underlying assets itself in terms of repayments, would there be more comfortable lending on balance sheet as compared to taking the pools?

Nirmal Jain: You have to look at two things. One is that they are not able to adequately lend on balance sheet and today they have a huge surplus liability and shortfall of assets because that is why they put such large amount of money with the RBI at reverse REPO rate. Two, their own track record in collection credit is not so good particularly for the smaller loans and their NPAs are far higher than the industry. Three, this is not one rule applies or one size fits all because some NBFCs where they have a track record and where they have comfort, I would like to believe that they will do more transactions. If you look at our last eight years track record of assignment and securitization then our losses have been lower than what typically CRISIL or any other rating agency would estimate or where banks would directly estimate and take into account in their pricing. So, it is again a question of it is a rolling thing, we will build comfort and confidence over the period of time and they do this. So, our COVID strategy is that rather than doing it post facto we'll get into some alliances with the banks where we do it simultaneously as we originate loans and dont have to even wait to accumulate assets and then sell them, so we will align our credit policies, processes as if we are working for the banks and originate only assets which banks are willing to take so that 100% of assets can be given to them . That is what we are negotiating with a few banks, workout an arrangement where there is a clear understanding at the time of originating itself that this loan is to be given to that bank. Banks are very, very happy. It is very profitable for them. See what happens is their CASA and cost of funds is very low, today they do not have much appetite to do wholesale corporate lending so how will they build assets when they are getting deposits, so they need retail assets. They are doing their best, but they cannot do on their own much, so it is a win-win proposition that way.

Aswin B: I understand that but my only concern was like given the current situation where there is moratorium and so on also being given on these loans, given that scenario they might go cautious probably?

Nirmal Jain: I think till these things get normalized, things may not take off so quickly and to that extent as work gets normal, we can expedite this.

Aswin B: Thank you.

Moderator: Thank you. The next question is from the line Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: Nirmal, thank you for very detailed presentation. I had three questions, one is that Tier 1 capital I mean I know you said in your opening remarks that right now even if you do very large dilution you will be able to raise a very small amount of capital so I am assuming that raising equities out of the question but if you do stress testing and if you look at your Tier 1 capital at 13.6% I mean you have very little room for error so have you had conversations with your large institutions, shareholders like Fairfax, and CPC or the others probably convertible structure or something which might give you access to Tier 1 capital may be not as the current depressed prices but if need be you might have access to it, have you had some think about that?

Nirmal Jain: Yes, Fairfax and CDC both we are in regular touch with and that is there on our mind but as I said that may be last quarter was a little bit of exception in terms of Tier 1 going down in this manner for the reasons which I said in my response to the earlier question but 10% is the threshold and internally we want to keep at least safety of 13% to 13.5% so you are right that we do not have much room here so we are very conscious and we are looking at all options that can be convertible, it can be perpetual bond, that also qualifies as Tier 1 or there can be other options as well and structuring in a manner that we can assign more and release the capital but I agree with you Ashwini, that we are very mindful of this so we are looking at that very carefully.

Ashwini Agarwal: Second question is that moratorium which is a very small number as of March 31, 2010 obviously is now growing to 58% but what was the progression? As the time has progressed and lockdown has gotten extended, are more and more people opting for moratorium or will you put?

Nirmal Jain: As the lockdown is getting extended, see most of our customers are small business like mom and pop stores, so initially there were not many customers opting for moratorium, the thought was it was just a couple of weeks so we'll manage, but as we have seen the lockdown getting extended to lockdown 2, 3,4…. the moratorium has also increased because their sources of income are shut and so I think they are forced to take this.

Ashwini Agarwal: The reason I am asking is that when we look at many of the commercial banks who also reported over the last few weeks, they have kind of given out moratorium numbers for April and they are in the ballpark of 30%, anywhere from 25% to 35% for end of April. But in the conversations we have had with them, most of them are saying that they have not seen any increasing incidence of moratorium, principally because people do not want to incur these interest cost and especially in the case of a bank where they feel that they may be tweak it slightly differently as compared to well-behaving loans. You have not seen that. You've seen a continuous increase in moratorium requests?

Nirmal Jain: You see, the 2 components of our business gold loan and microfinance, they have tilted balance and that is why what is applicable for banks may not be applicable to us because these 2 businesses account for almost around 35%, 37% of our total portfolio.

Ashwini Agarwal: Here the moratorium rates are quite higher about 70% to 80%?

Nirmal Jain: Yes. 98% of microfinance is moratorium. So, if you look at results of any microfinance companies then you will understand the microfinance component of ours. So, I mean we dont have customers like Reliance or Tata's or whatever. So, the microfinance is 98%; gold loans, 82%. So weighted average looks tilted, but as things open up, these are also segments which get the bounce back fairly quickly. Our moratorium in home loan is much lesser. The balance is skewed because of microfinance and gold loan component.

Ashwini Agarwal: So, I have a question relating to Slide 34. So, there are 2 tables there, right? Micro market prices and project mix. Now the top table suggests that bulk of your principal outstanding in your real estate is towards affordable projects. But if I look at the bottom table, you have 11 projects where the micro market prices are in excess of Rs.21,000 a square foot, which accounts for almost about, whatever, Rs.1,500 Crores of principal outstanding, which is 39%. So, the 2 tables do not seem to tally? Or at least I could not understand what they mean.

Balaji: So, a fairly simple explanation to that is that the 21,000 per sq foot is on carpet and second is these are projects which are in Mumbai, essentially, these are smaller one bhk kind of units and so on. So therefore, in Mumbai, anything which is under let us say about Rs.1.5 Crores or Rs.2 Crores qualifies under affordable to a large extent, and these are mostly in the far suburbs. So therefore, even though the per square foot on a carpet price looks higher over there, but the walk sizes are fairly lesser. So therefore, it does qualify in Mumbai. We do have about 2 or 3 projects, which are also there in the western suburbs like Bandra/Khar which have already established something like 78%, 80% sales, which are a little on the higher side but then the supply being a constraint in Bandra kind of suburbs in the western suburbs of Mumbai we have never faced a challenge over there.

Ashwini Agarwal: Okay and last question over the last three weeks to four weeks, migrant labor reverse flow accelerating in such a big way, we think the stress on your residential projects, real estate projects could get worse?

Balaji: Well, I would say that there would probably be a temporary stress and why I say temporary is that ultimately if the migrant labor are coming because of want of opportunity to earn money and given that opportunity is very limited in the places where they come from it is a question of time that they have to come back because whatever the schemes the government has MGNREGA and all that the amount of money which they make is fraction of what they would get here and also one thing what I see also what is happening on the ground is that the developers are providing for accommodation and labor terms which are far superior to what they were earlier, to attract to get back so I see it temporary lasting not more than maybe about three months to four months.

Ashwini Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Harsh Agarwal from Deutsche Bank. Please go ahead.

Harsh Agarwal: Thanks for the call and again I think this is a very good presentation and thanks for the transparency and being so upfront with numbers so appreciate that. Two questions for me. One was can you give a sense of how much of the bank loans you have been able to get moratoriums since the RBI direction came out? Just a rough sense would be helpful, I think. Secondly, your cash and undrawn lines have declined a fair bit from March 31, 2020 to May. So, I mean just use to get a sense, is that mainly because the bank loans were not in the moratorium and you were likely repaying the bank loans? Or what else, if anything, led to the decline in the cash and undrawn lines in the net?

Nirmal Jain: You are right so the earlier moratorium was not there so we have been repaying we have almost ended up paying Rs. 2,400 Crores of bank loans and bonds due , but only recently like the money that was due on last two days to three days of this month, today, yesterday we had started getting some conformation of moratorium so moratorium was not available and we did not want to take any chance in terms of rating because if banks are not confirming moratorium we do not pay and somebody can suddenly report as a default which can cause lot of problems although we were always in touch with the banks so this clarity is emerging only about a week ago when State Bank of India said and a news article came that they are okay, SBI has now agreed to give moratorium to the NBFCs even today it is little vague but at least what was the circumstances in March end and even in April end we had large repayments which till about May 15, 2020 for sure there was no moratorium availed after that now I think moratorium is not just blanket for everybody but still I think most of the banks are now considering moratorium and hopefully with almost all the banks have now agreed and that is why we have separated the outstanding which are likely to get moratorium and not get moratorium both in our debt obligations.

Rajesh Rajak: To add to that, a lot of the lines and cash has been used to pay off NCDs during April and May for which obviously moratorium is not applicable those are to the tune of approximately Rs.800 Crores so those were repaid on time during April and up to now.

Nirmal Jain: So, we have given the latest liquidity because the environment is so fluid and volatile so we thought that we keep the investors abreast with up-to-date numbers.

Harsh Agarwal: Thank you so much.

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

Amit: There was a announcement about the auditors intension of resignation, can you provide a bit more colour on that that whether the auditor has already resigned or this is something that will be discussed at the next board meeting and whether it is preferable to have a change in auditor at this current point of time given the uncertainties in the market?

Nirmal Jain: In yesterday's board meeting, Deloitte has given their intention to resign because they feel that fees that are being paid and proposed by the audit committee and board are not commensurate and the expectations are not increased by a certain percentage but its a manifold increase. Now while I do not have any official documentary thing on this but it looks like most of these big fours and last year there were 150 resignations and they have cut a few companies that are facing similar kind of problems so they are basically directed by their global parent, they are increasing fees manifold, they are trying to build the risk premium into it and some of these big fours have been involved in some of the entities in the financial sector, NBFCs and the banks that came under a lot of stress and default and things like that and I have a feeling that they are trying to restrict or relatively balance and therefore downsize their practice in BFSI space and balance it, because I think over a period of time BFSI became very large component /disproportionally large component of their audit practice. So, these are the circumstances, under ideal circumstances you would not have done this, but now when in COVID, we are trying to put lot of pressure on cost optimization, cost containment, certain salary cuts including me and all senior people have taken it. We do not want to have something which is outlandish increase in the fee which will be like very exorbitant so we have been negotiating with them but it looks like that their expectations are way too high than what probably we can regularly meet. So, the board will take it up on 5th we have called a meeting where we look at all the proposals and everything and this last year balance sheet and everything that audit Deloitte is going to sign so theyre going to complete. So there is no confusion and no doubt about that, so even if we part ways it will be very amicable and we can re-engage if the circumstances change but for the time being it looks like their fees are not tenable but this is the call that board has to take so really what I am saying is indicative but I really cannot talk on behalf of the board.

Amit: Thank you very much.

Moderator: Thank you. The next question is from Aman Shah from Jeetay Investments. Please go ahead.

Aman Shah: Thanks for your disclosures. Sir, I have one question on extending to some previous participants question on gold loan moratorium, when we compared to south based peer their gold loan is like some 90% of the customers have opted not to take moratorium and here we feel like 90% have opted for moratorium, so what the numbers look at very extreme hand, will you be able to actually explain what would be the reasons saying to this?

Anujeet Kudva: Our understanding is I think every gold loan NBFC runs different schemes in terms of attracting customers so one of the popular schemes which lot of others NBFCs run is around rebate schemes which essentially means that you have a bullet repayment which is towards 11 months or 12 months tenure and then as someone starts paying earlier you start giving rebates on the loans so essentially those are the schemes where eventually customers repayment is an elongated one so that is why perhaps the moratorium figures are low. Most of our portfolio is under monthly repayment schemes so based on that you see larger number of customers, and that the branches also under lockdown until about couple of weeks back that is why the numbers are higher but now as branches are opened I think lot more customers are coming forwards to repay and we should see this number trending downwards.

Nirmal Jain: If you collect monthly there are advantages and disadvantages but the advantages are that credit discipline is maintained and secondly the loans become assignable because as per the RBI guidelines we can assign only if you have collected three installments for a short tenure loan or six for a long tenure and there is no default and I think we have been assigning gold loans also in a fairly significant manner and secondly in case of bullet repayment obviously unless the bullet is falling in the time period you really do not have to do anything because loan is not falling due only. So, supposing I have a yearly scheme or a two-yearly scheme then maybe only 8% or 9% will typically fall due in a months' time others are not falling due then I don't need to talk about moratorium at all.

Moderator: Thank you. The next question is from the line of Rocky Andaya from Lion Global. Please go ahead.

Rocky Andaya: Thanks for the very informative presentation. I had just two questions. First is given the moratorium that you need to grant your customers, how does that impact the ALM situation because your ALM "inaudible" for the next 86 months what is the ALM situation with the moratorium that you are granting to your customers and the next question is I think you bought 15 million dollar bonds on April so is there plan to buy more US dollar bonds, do you have any approvals from RBI to do such thing? That is all from me.

Nirmal Jain: No, we do not have approvals from the RBI so I think till we get approval from RBI we really cannot do any buyback more but 15 million we did in the month of March. In terms of moratorium impact , if we are getting the moratorium from bank then obviously the ALM improves, say if you look at the chart that we have given, even if we dont get the moratorium from the banks then also our ALM for next few months will be taken care of and obviously we can securitize and raise more funds but if the moratorium is corresponding from the bank then the ALM is not impacted as much.

Rocky Andaya: Just to clarify if we do not get moratorium from the banks you will have basically negative?

Nirmal Jain: So that will dip into our liquidity or the reserves that we keep but we have provided for that so even if we do not get moratorium from banks, we can sustain our operations and liquidity for the next six months at least.

Rocky Andaya: Thank you.

Moderator: Thank you. The next question is from the line of Rajeev Agarwal from Door Darshi Advisors. Please go ahead.

Rajeev Agarwal: My first question is on the gold loan segment. You seem to be quite bullish about it and some of your peers who have reported the numbers also seem to be very bullish about it so are you seeing increased competitive intensity in that space and how is that impacting the business?

Nirmal Jain: Competition I think has been increasing in the space but against a very steep learning curve in terms of get everything right from testing to go and get right kind of customers, storage, security and getting the product, yield etc so actually we have been building this business over a period of time, also this business traditionally has been done like a consumer business with advertisement marketing so if you see some of these gold loan companies have always used celebrity models to create the brand awareness, I do not know whether you have noticed, we have also signed up Rohit Sharma, the cricketer has become a brand ambassador so it becomes like a consumer product business in the local area, you create a brand awareness so it is competitive and I think in India any growing business will have competition but we would like to believe that we have been doing this business for ten years so we are much higher on the learning curve. So competition is there but we are not overly concerned about that.

Rajeev Agarwal: Second thing is can you talk a little about total amount of disbursement you would have done from end of March till May 15, 2020 where you have reported on ALM because I may still have that question around how the ALM, the total cash in front line has come down from more than Rs. 5,000 Crores to Rs. 2,200 Crores, so just want to see how much of that is given by the disbursement that you have done?

Nirmal Jain: As I said it is Rs.2,400 Crores of bank loans we have repaid and Rs 800 Cr of NCD we've repaid. But most of these repayments were due in March 31, 2020 and April, they have been repaid.

Rajeev Agarwal: How much was the disbursement, I missed that?

Nirmal Jain: Disbursement rather insignificant but I will just check.

Rajeev Agarwal: While you are checking that, one more question from my side and that is if I look at your assignment income, the percent of assignment income as a percentage of the assigned assets is around 5%, now. Is that sustainable?

Nirmal Jain: Yes, they are quite sustainable because like gold loans or business loans, businesses have higher operating costs and higher margins so this will be sustainable. The total disbursement would be little less than about Rs. 100 Crores kind of thing not significant.

Rajeev Agarwal: Rs.100 Crores in the last one and half month?

Nirmal Jain: Yes, slightly less than that also in a month.

Rajeev Agarwal: Okay. Those were my questions. Thank you.

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

Abhiram Iyer: Thank you for taking the questions. My question is actually pertaining with respect to the loan increase that you were talking about you mentioned that your targeting around Rs. 2,000 Crores to Rs. 3,000 Crores in the next four weeks to five weeks. Do you have any sanctions which have been granted or are we still in preliminary phase in term so of raising funds?

Nirmal Jain: There are various stages actually. I will not say that there are confirmed sanctions, but they are at various stages. So the whole banking system have been, and maybe I would like to believe that is true for entire NBFC sector not us alone, that they have been waiting for a clarity on guidelines from government and RBI about the credit guarantee, risk, the regulatory schemes and all those things, they have been just done very recently so I am feeling that in next few weeks we will see good amount of disbursement but nothing much has happened in last two months.

Abhiram Iyer: Then coming to the liquidity, are there any costs rationalization that the company is planning like is there any cost cutting measure or is there any branch closure measure that the company is thinking about?

Nirmal Jain: Cost cutting yes, branch closure no, we also have not reduced the number of people also and more or less our employee strength in March and April end were similar with 1% or 1.5% difference. so high cost people have taken a salary cut, we are trying to rationalize the branches and many other costs including travel and we are trying to cut down the marketing activities which takes place in local regions, the salary bill has been brought down by 10% to 12%, the operating cost we are targeting to bring them down by 25-30% . Lot of work is happening on that front also. There's a great opportunity to rationalize costs in this kind of environment and with the new revelations that have happened about how much people need to travel and where people can work from and what kind of productivity we can target so I think lot of effort is happening on the cost rationalization.

Abhiram Iyer: The last question is actually pertaining to the assigned assets and is that a way where we can see with respect to the previous year's how the assigned assets work and how the income works because I see there has been a chart provided on page 13 but that does not correspond to whatever the historical assigned assets and the income that has been provided are?

Nirmal Jain: So, that is included with assigned asset AUM so if the assets are not repaid then based on assets.

Abhiram Iyer: Just for understanding the Rs.575 Crores that has been mentioned and the 5.8% income that has been mentioned that is on the base of the Rs.9,700 Crores that has been done

Nirmal Jain: Absolutely right.

Abhiram Iyer: Okay and that Rs.500 Crores if this assigned assets remains constant that Rs.570 Crores will come every year?

Nirmal Jain: Absolutely right.

Abhiram Iyer: Sir, you have mentioned that there are Rs.2,200 Crores of cash and undrawn lines, are any of them lien marked?

Nirmal Jain: No.

Abhiram Iyer: Okay, those are not lien marked. Thank you.

Nirmal Jain: Not in this. This is not anything which is lien marked.

Moderator: Thank you. The next question is from the line of Ramesh Jhaveri from JNG Holdings. Please go ahead.

Ramesh Jhaveri: Thank you for the opportunity. Can you just throw some light on the gold loan PTC which are not to the banks but to the retail customers so how is the yield over there for our company since you offer some higher buffer in terms of security as well as some personal promoter guarantee also, just trying to understand this product? so in that basically how are the yields compared to the assignments that you have given to the banks?

Nirmal Jain: So, gold loan PTC may be slightly higher but as a part of our strategy to diversify and have different sets of investors and providers of money, we are working on this, so here we end up giving about 10% plus maybe around that range but with banks probably we can work at 9%.

Ramesh Jhaveri: How big is that in the total assignment?

Nirmal Jain: Not too much, gold PTC?

Ramesh Jhaveri: Yes.

Nirmal Jain: Not very significant. I mean maybe not even 4% to 5% of our total assigned portfolio. It will be less than that. I do not have that numbers but it will not be much.

Ramesh Jhaveri: So, just one more question. Suppose in this specific instrument of the PTC if there are some higher delinquencies, would that effect the rating of that pool and in turn would affect the whole pool, right?

Nirmal Jain: So, in gold its very unlikely to happen because historically delinquencies have been low and you always have option to auction the gold and repay the loan so the defaults and delinquencies are very few and far.

Ramesh Jhaveri: Thank you.

Moderator: Thank you. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Nirmal Jain: Thank you so much. I think this went fairly long but we are very happy to answer more questions. If you have any further questions, please email them to our Investor Relations Manager, Pooja Kashyap and she will be very happy to respond. Take care. Thanks a lot.

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