"IIFL Finance Limited Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance Limited Q4 FY2021 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 "*" 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: Good afternoon everyone. On behalf of team IIFL Finance, I thank all of you for joining us on this call. I am Rajesh Rajak, Chief Financial Officer accompanied by Mr. Nirmal Jain, our Chairman. Also, on this call are, Mr. Monu Ratra – IIFL Home Finance CEO and Mr. Venkatesh N – Managing Director, Samasta Microfinance. I will hand over to our Chairman to comment on the macro environment and the group's strategy and plans. Thank you. Handing over to Mr. Jain.

Nirmal Jain: Thank you, Rajesh, and good afternoon friends. We are really living through hard times with marked social and health crisis and the second wave of COVID has been really cruel for India. All of us have some loved ones affected by it and going by the pandemic history, the steeper the rise, the steeper the fall of virus threat should be. So, we hope and pray that with not much damage this passes us by quickly and we get back to our normal life.

We are doing everything possible for our employees as they dealt with this challenge valiantly and our message to our employees is also clear to have compassion for the customers as well. Be empathetic, understanding, and flexible in handling customers who are generally impacted. In our previous call, I assured you confidence about the V-shaped recovery, and I do hope that this wave is a blip and things will get better soon.

Yes, one must be cautious in some respect about the impact of pandemic. Fortunately, our product mix is dominated by home loan and gold loan and both these are fully backed by safe collaterals. This has also helped us maintain superior asset quality and our overall GNPA and NNPAs are below 2% and 1% respectively, but at the same time as lockdown affect livelihood and income in our portfolio, microfinance and unsecured business loans are most affected segment and considering the headwinds in near future, we have aggressively taken write offs and provisions particularly in unsecured portfolio of microfinance and business loans.

Our two-thirds of business loans are secured and about a third is unsecured and therefore during this quarter also we have loan losses and provisions which are significantly higher than the long-term norms that we had till last year. We started the process of transferring real estate loans to an alternative investment fund, so that we can refocus our business model slowly on retail loans but COVID affected the teams working on it during the last two months and caused some delay, but now the process is on track and Ares SSG, Singapore Fund has signed the contribution agreement and the first tranche which will be about a third of the proposed portfolio that is to be transferred will move to the fund in next few days, even a week and the remaining assets will move in a few weeks thereafter.

Now coming to financial performance, I am happy to report that our profit before tax crossed the milestone of Rs. 1,000 Crores and the products post tax profit was Rs.248 Crores which generates annualised ROE of over 20%. Our cost to income ratio has fallen steeply from 52% last year to 35% this year with higher volumes as well as higher margins and cost control.

Our capital adequacy for the listed NBFC is now over 25% which leaves adequate margins for future growth. Our loan AUM is a little short of 45,000 Crores but grew 18% last year against all odds of lockdown and liquidity challenges.

Our strategy to partner with banks as well as Fintech is on track and yielding expected results. We continue to invest in technology and people, and we have launched first of its kind app which is called My Money for paperless, instant, digital business loan with property technology. During the last quarter, we expanded our branch network, as things looking much better in terms of the likely impact of COVID, and we added 125 branches and hired or added about 1800 people to our manpower. We will wait for some time and once things will get normalised probably, we will expand our branch network further.

To sum up we look at the environment with cautious optimism, cautious because we do not know when will the pandemic end, and optimistic because we know it will end sometime soon. Now these times call for extraordinary dynamism. If things get more challenging, we should be adequately cushioned and if pandemic eases then credit demand spurts, we should be prepared to seize opportunity.

Thank you, now I will handover to Rajesh to give you business and financial updates.

Rajesh Rajak: Thank you Mr. Jain. I will just take you all through business and financial updates in brief. During the quarter, IIFL Finance's total comprehensive income was Rs.270 Crores which was up 17% on a quarter-on-quarter basis and up 392% on a year-on-year basis. We recorded our highest ever pre-provision operating profit of Rs.650 Crores during the quarter which was up 6% on a quarter-on-quarter basis and 85% up on a year-on-year basis driven the higher volumes, better margins, and cost optimisation.

Our loan AUM at Rs. 44,688 Crores was 6% higher than the previous quarter and 18% higher than the same period last year. Our core segment in fact grew faster at 21% year-on-year to reach Rs. 39,790 Crores. Our disbursement for all core products except business loans continued to surpass pre-COVID levels.

Retail loans including consumer loans and small business finance constitute 90% of our loan book. A strong characteristic of our loan book is a large proportion of loans at compliance with RBI, Priority Sector Lending norms/PSL and aggregate nearly 36% of our loans are PSL compliant. Gold loans are not deemed to be 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. In line with our capital optimising strategy 33% of our AUM is assigned or securitized as of March 2021 up from 31% as of March 2020.

Our cost to income at 35% was significantly lower than 52% of FY2020 in fact for Q4 our cost to income was 33%. Annualized return on asset based on Q4 result is 2.8% and return on equity is 20.7%. Our Tier-I capital adequacy stands at 17.5% against the minimum requirement of 10% and total capital adequacy at 25.4% against the statutory requirement of 15%.

Our average cost of borrowings declined 13 basis points on a quarter-on-quarter basis and 56 basis points on a year-on-year basis at 8.8%. Consolidated GNPA and NNPA at slightly below 2% and 0.9% of loan respectively is much lower compared to 2.9% and 1.5% respectively in Q3. Our collection efficiency for most products continues to be on a rising trend. Our provision coverage including standard assets provision under Ind-AS norms, on Stage 3 assets was 186% as of March 2021.

Moving onto liquidity updates; during the quarter, we raised Rs 3,889 Crores through term loans and refinance from banks including debentures. In addition, loans of Rs. 3,189 Crores were securitised or assigned during the quarter. Our public issue of unsecured subordinate debt in March 2021 was highly successful as we raised Rs. 670 Crores more than 6x the base issue size.

Cash and cash equivalents and committed credit lines from banks and institutions at Rs. 5,275 Crores were available as on March 31, 2021. We continue to have nil exposure to commercial paper. We have a positive AUM in all buckets whereby inflow cover or exceed expected outflows. During March and April 2021, we bought back USD $9 million nominal value of our MTN issue which we have done last year through the open market. This is as per the maximum permissible amount that can be bought back currently under RBI regulations.

A brief on our digital focus; we continue to focus on digitisation and analytics to improve customer experience and enable a convenient one-stop to shop for customer's credit and investment needs. We have completely digitised our business loans journey right from customer on-boarding to underwriting, disbursements and collections. We are collaborating with the Fintech ecosystem to further enhance our platform and customer experience. We have recently launched My Money app for paperless instant and secured business loans.

We had enabled digital top up for our high quality secured MSME loan customers wherein the entire journey is paperless, right from communication for accepting sanction letter and e-agreement is sent to eligible customers via SMS and a disbursement is automatic with no manual intervention.

Our Jhatpat Home loan app which is a pan India product for instant home loans helps all the stakeholders in the housing finance industry be the individual home borrowers, developers, and the company. They get a loan in an instant manner. Our home loan disbursed by Jhatpat loans has gained significant traction. However, total home loans disbursed in the month of March 99% was sold through Jhatpat loans. The corresponding percentage in March 2020 was 54%.

In addition to digital top up and enabler of gold loan launched earlier during the quarter we have launched the facilities for customers to avail gold loans directly from their home office. The loan officer visits applicants' home or office, and the entire process is tablet based on on-boarding sanction to disbursal. IIFL loans app has been increasingly used for various transactions by customers and has been especially beneficial during COVID lockdown times giving customers ease and convenience of access. This app has been downloaded more than 6 million times till now and we had more than 2.5 lakhs active users on the app for the month of March 2021.

With this, we bring 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: Good afternoon. Sir, if you could just tell us as of now how much of one-time restructuring and DCCO extension cases is done?

Nirmal Jain: Onetime restructuring that we had done is about Rs.500 Crores and DCCO cases are around Rs. 2,400 Crores.

Prashanth Sridhar: Okay and how much of these DCCO cases would move into the real estate fund once that comes in?

Nirmal Jain: When I say Rs. 2,400 Crores, it is almost half the real estate book and DCCO cases have been done only in real estate portfolio. So, most of it will move to the fund.

Prashanth Sridhar: Thanks, and the second question was when we look at the disbursements especially in the MFI and business loan space, over the last two quarters, how much would have been disbursed to an existing customer or to a customer under some sort of stress may be in the 0+dpd?

Nirmal Jain: In business loan, the existing disbursements would be under the Government scheme, Rs. 344 Crores were disbursed in FY21. In case of microfinance, we do not have the data, but good number of customers would have got top-up loan depending on their track record.

Prashanth Sridhar: Okay and what would be the filters we apply there before we do a top up loan?

Nirmal Jain: Good question. Basically, we look at the loans- they should be current i.e. it should not be NPA, and we look at the track record of the customer with us, how long the customer has been and what has been overall track record. So, in case of business loans, it has been restricted only to who are eligible for this GECL scheme with the government and we focus on that.

Prashanth Sridhar: Thank you so much. I will come back in the queue.

Nirmal Jain: Your concern is valid because there is always the fear of ever greening of books and we are quite cautious about it**.**

Moderator: Thank you. The next question is from the line of Rajeev Malhotra from Skanda Investment. Please go ahead.

Rajeev Malhotra: Good afternoon everybody. I have a macro kind of question. In a time when lot of people would be looking from corporates especially in the finance sector of acquiring or setting up a bank, is there any long-term plan of IIFL for that, long or short-term plan?

Nirmal Jain: Yes, banking is something that we are ready to evaluate. At this point in time, there is nothing on anvil, but what we plan to do is just set up a team internally and may be take help of some consultant and figure out that what is the feasibility of becoming a bank and what is the cost of it. Also because initially you will be hit by CRR, SLR and priority sector immediately on day one and what does it mean for all the stakeholders needs to be evaluated, so maybe in next couple of months we do propose to undertake an internal study with the help of some consultant.

Rajeev Malhotra: That answers. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Just wanted to understand now given the second wave and uncertainty, is there any thought process you can put on the credit cost that we might want to kind of expect in FY2022?

Nirmal Jain: Our unsecured portfolio of microfinance and business loan put together is just about 15% of our total book. Last year was quite exceptional year and our credit cost in terms of loans losses and provision has been significantly higher than the historical ten years if you see before that. So, current year if you really look at it, it may be as bad as last year or better, now because given the fact that COVID is still there and nobody has a clue about the second wave, third wave and how it will pan out ultimately. But the worst-case scenario in my opinion will be what was there last year, but most likely it will be better off when it comes to credit cost and provisions as compared to last year. Even if you have organic growth as much as last year, it was exceptionally high in terms of the provisions if we look at our balance sheet or profit and loss for ten years but then also, I think we are good in terms of whatever profitability we have; we can maintain the normal growth from here.

Deepak Poddar: In terms of growth - like 18%-20% growth is what we have been doing, so is that what we want to target this year as well?

Nirmal Jain: I think that is a good target to have. Last year also we grew 18% and last five year’s compounded growth rate of AUM is in the same range, so 18%-20% is a good volume growth target.

Deepak Poddar: Thank you.

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

Chetan Cholera: Congratulation for good set of numbers. I just wanted to understand that CRE asset transfer, what will be the impact on balance sheet as well as P&L.

Nirmal Jain: It is good that you asked this question. The assets which are transferred will basically release cash flow and capital to that extent, but it is one-third of the book. So at least one-third of the portfolio which is there right now will be classified in investment. So the way it happens is that we got all these debentures which we sell to a fund, fund buys it and fund gives us the units in return and those who are buying units, they give cash, so basically what we expect is that about two-thirds of money we should get back in our hands and the remaining one third that remains with us should basically attract the capital adequacy norms of 100%, so at least whatever portfolio we transfer two-thirds of that will get released in terms of capital and in terms of cash flow also. It can be little less than two-thirds also because one-third is minimum that we need to keep but at the same time, what is happening is when the portfolio is in our books and suppose one quarterly payment is delayed then it becomes NPA, but the project may require some last mile funding because of what cash flows they had forecasted and the actual bookings are less than the forecast, but still you think that the project is good then it really becomes difficult for an NBFC to support something which has become an NPA. But in a fund structure because you do not have a quarterly payment structure or whatever and we are providing for liquidity in the fund so the last mile completion will be fast. So, our plan broadly is that Rs. 3,000 Crores portfolio we will transfer, and Rs. 600 Crores will be kept as cash out of the total Rs. 3,600 Crores. So, the portfolio that we are transferring should get executed very fast and should generate the cash flow so that it pays the external investors as well as us. Now, our investment will be valued on the basis of fair value by, may be rating agencies, so depending on the cash flows of the project, we may not be able to accrue much on the portfolio that we are holding, so the cash that we get from the portfolio is basically when we reinvest in our business, so it remains as an extra liquidity because it generates very low liquidity. But if you are able to deploy it in our other businesses like home loan and gold loan then it reduces our need to borrow and start generating that kind of return, but immediately what happens is that yield which is currently about 14%-14.5% on the entire portfolio then goes away. We will be able to accrue on our one-third portfolio depending on the fair evaluation. The remaining two-thirds or whatever cash which we get, will have to deploy that in the business. So, that is one but what it does is that incrementally we would require provision on this portfolio, because if you see last four quarters, given the stress in the overall factor and we are trying to be conservative because this portfolio is going to get transferred, we have been making provisions in this portfolio quite aggressively.

Chetan Cholera: There will not be one-time effect; it will be like slowly, slowly effect will be there?

Nirmal Jain: Right. What we have done is that we have been writing down the portfolio as required but there will not be any one-time impact because the transfer is more or less at the current value and basically small impact, but it will be insignificant.

Chetan Cholera: Sir second question is we have various businesses, what is the eventual game plan? there will be two, three companies out of this IIFL Finance or you will be going to be bank or something, what is eventual game plan?

Nirmal Jain: The game plan for IIFL Finance you are saying?

Chetan Cholera: No, we have microfinance business, we have homefinance, so you can have different, different company for each sector as all sectors are absolutely large?

Nirmal Jain: Yes, because the size of these businesses now is in a way somewhere closer to some other companies that are getting listed, but now, there are two alternatives, one that is somebody asked that whether we can become bank, we want to evaluate that. If we become a bank, then there is no point in listing these companies separately. The other alternative is that we decide not to become a bank and at what point in time we should basically get them listed separately? I do not know. I think that nothing as such in the near future, so as of now the most likely scenario is that we will continue as it is, we continue as one entity with two wholly controlled or wholly owned subsidiaries - more or less wholly owned **as** it may be 99% in case in microfinance, that is how it will continue. But we are open and it depends if the businesses attain a critical size and we find a good investor and it makes sense for all the stakeholders to separate them then we can look at that. So historically in our group you see we did separate wealth and broking businesses when we are high quality investors and they attain a critical mass and they could attract separate set of investors but in this business at this point in time, there is no such plan.

Moderator: Thank you. The next question is from the line of Manjesh Verma from Citi Group. Please go ahead.

Manjesh Verma: Thanks. Congratulation on a good set of numbers. I had two key questions. First one was regarding the recent compliant which came out against the Company and apparently which is being investigated by Ministry of Corporate Affairs. I know your response has been there in the public domain as well, but I would want to get some clarification about how you are thinking about, how this thing proceeds and is there anything that we should be worried about. I know you have mentioned about the background of the person as well but at the same time just your thoughts and how it progresses, so will appreciate that? The second will be with respect to the disruptions, the potential disruptions to your business in light of the impending lockdown everywhere. I know there is no national lockdown but regional lockdowns and disruptions to business is likely which is going to have an impact on your earnings, so how do you think about that and how we should we think about impact on your financial services? Thank you.

Nirmal Jain: The first complaint, now this gentleman who was a borrower earlier but now we do not have any exposure to him, so he defaulted and there are many customers who have bought premises from him, there were complaints and some of them have taken him to NCLT also. There were quite a few criminal complaints. Now to get out of NCLT he decided to sell his project to a builder that was far more reputable builder with a very good track record which is Saya and Saya’s promoters also gave personal guarantee when they had taken over this project. So as far as financially we are concerned, we do not have exposure to this person who is making or who has lodged or who has given this input for this news in the electronic media. Now as we have said in our response which was on given to the exchange, we have talked about Ministry of Corporate Affairs complaint, but we have received no communication from them and there has been no inspection by Ministry of Corporate Affairs till now and we also do not know that on what ground he is seeking inspection by Ministry of Corporate Affairs. So, unless we hear something from MCA, we really cannot comment on that. As I said that financially we do not have any exposure but there are lot of criminal complaints which are going on against this gentleman but after this story that has come in news, we will also take legal action against him and joined getting injunction to avoid him spreading or much linking without any evidence or without any base, so we will take certain corrective action there. So, does this answer your first question?

Manjesh Verma: Yes, broadly but at the same time in the complaint there are definitive points which have been raised about how the trail has worked and apparently that is what he is alleging. So, from your perspective are you planning to come up with a point-by-point kind of rebuttal to those or would you leave it as is and just go for a legal action against him?

Nirmal Jain: So, we will go again for legal action, they are completely baseless points because what he has said is round tripping and ever greening which again is completely baseless because there is new loan in the new collateral. There are lot of contradictions in what he has given. We have given our response to the media also which they partially carried; they partially did not carry some of the responses there in these articles. But whatever complaint he has given is completely baseless and it is too frivolous to respond to. Our legal action against him is for damages that he is causing by giving false information, but we have responded but I do not think it merits point-by-point rebuttal. Nonetheless any investor has any wanted to know more about any other points we will be happy to give you the clarification or more details about the case. In fact, if anybody is more interested then you can take out the point from that and just send it to us, we will give you the details. Coming to the lockdown impact, as of now as we speak lockdown impact is minimal because most of our branches and most of operations are still live because this lockdown has exempted the financial system, not only capital market but all the financial services firm including NBFC's and banks. So, we can operate. Many people are working from home, but at least now we have a playbook, because we have passed through this entire pandemic last year so more or less business has not impacted much. If it has impacted in terms of collection efficiency over a period of this quarter, we will discover that, and we are prepared for that. The volume growth may slow down particularly in business loan but that is intentional because we also want the environment to become clear before we are able to do much. There can be some impact because some of the branches are closed now, I really do not have precise number but may be all over the country about 3% - 4% of our branches may be shut down because of lockdown and the conditions in those micro areas but the impact as of now appears to be minimal.

Manjesh Verma: From a collection point of view, are you seeing any difference in the past month as compared to the previous month or so far it has been relatively unchanged?

Nirmal Jain: So, there is marginal decline in the month of April as compared to March, but many times these things pickup in the last month of the quarter or close end of the quarter. But in the month of April if you look at our collection efficiency there is a marginal decline as compared to the previous month.

Manjesh Verma: The final thing is with respect to your plans to sell your real estate loan portfolio to SSG and a few other investors which have been mentioned in the public media. How should we see this in terms of your overall portfolio getting impacted, I think your real estate exposure if I am not wrong was something like 12% to 13% so what is the change going to be after this transaction?

Nirmal Jain: So, already real estate portfolio has come down to 9.5% now. When you look our March numbers of the year end or the last year end so this 9.5% will become insignificant, as I said there are about Rs.3000 Crore's portfolio we are moving. The portfolio that we are not transferring is either are the loans which will get over very soon because of the cash flow or they are very small ticket loans, Rs.5 Crores, Rs.10 Crores, Rs.20 Crores and many of these are through our housing finance companies for construction only. So, that is not the portfolio that we want to transfer, but I think once this gets done the 9.5% will come much below 5%, I guess will become relatively insignificant.

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

Abhiram Iyer: Mr. Jain, thank for your comments and congratulations on a good set of numbers. I had a couple of questions, one was more in terms of housekeeping, the gross and net NPA numbers that are mentioned that 2.1% and 1.0% these are before considering the supreme court order right. These are not comparable to the 1.6% which was given for the last quarter when you talk of gross NPA?

Nirmal Jain: Yes, the pro-forma numbers are higher. These are comparable to pro-forma numbers. Yes, you are right so the last quarter numbers would be significantly higher when we look at the comparable numbers.

Rajesh Rajak: On the pro-forma GNPA as of December was 2.87% so the right was to look at it would be 2.87% has come down to 2%.

Abhiram Iyer: Thank you. Just wanted to reconfirm that; the other question that I had was you mentioned that you are targeting growth of 18% like in the previous years for the portfolio. Do you help in letting me know the day we are tapping the capital markets to facilitate this growth, either the offshore bond market or even in your equity markets?

Nirmal Jain: So, not really we do not need to because our capital adequacy is 25% and internal accruals will also need part of this growth. So, now for 18% -20% we really do not need to tap the capital market. There will be a different driver for tapping capital market, but it is not the need for capital.

Abhiram Iyer: Got it Sir and the cash that you will receive on the AIF transaction, the real estate transaction that would go towards to the other parts of the business. Would you be using that to grow out of the AIF itself and grow real estate transactions with those funds?

Nirmal Jain: No, as we said that we want to focus purely on retail, there is no question of putting that money back in real estate transactions.

Abhiram Iyer: Got it Sir. Thank you. I will get back in the queue. Thank you.

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

Amit Mantri: Couple of questions, one this quarter the collections that have been provided including arrears, so can you provide comparable numbers with last quarter which were excluding arrears for home loans, business loans and microfinance?

Nirmal Jain: No, we have provided numbers for four quarters basically, they are on like-to-like basis, you can look at that in that chart which gives you quarterly numbers.

Amit Mantri: Yes, Sir if you can give us what are the collections excluding arrears for the home loans, business loans and microfinance category which was being provided earlier?

Nirmal Jain: Actually, what happens because many times there are pre payments as well as arrears and it becomes difficult to track that way, so basically this is demand versus collection and if you see then quarter numbers are comparable.

Amit Mantri: Okay, and there are Rs. 1,160 Crores of loan losses and provisions last financial year (FY21), just how much of this was from the CRE book?

Nirmal Jain: This includes write offs as well as the incremental provision and out of that CRE is close to Rs.500 Crores, close to that.

Amit Mantri: Rs.500 Crores okay, and just on the gold loan business even this quarter you have grown well and despite banks having the advantage of almost 90% LTV and now from April 1 onwards banks are again back to 75% LTV on gold loans. So, how has the competitive intensity now changed versus what it was last two, three quarters when banks had advantage in terms of being able to give higher loans? So, are you seeing an improvement in the competitive intensity in the gold loan business?

Nirmal Jain: Actually, even if you were allowed 90% probably, we would not go beyond 75%. So, if you look at March quarter when the gold prices fell by almost 15%-18% kind of a thing. So, in a way it is a commodity and that can generally create some Goosebumps because your LTV will go above the limit or mark-to-market value, even if one or two months' interest is not paid LTV will hit more than 100% and you will panic to auction or sell, which can be problematic for customer also, because jewellery has emotional value. So, we would like to be conservative to keep it at

75%. So I do not think we are impacted much by that. I do not know whether in many banks are also conservative, their weight per gram the way they calculate I do not think they were going aggressively towards 90% and somebody has then there is a significant risk to the portfolio because when you have so many customers and if you lend at 90% LTV and then some of them default and obviously you would not be able to recover entire money because your collateral will be below your recoverable amount. So, I really do not see that as a challenge and the competitive intensity has been increasing because banks have become very aggressive in gold loans in the last one year. But you must see this market little differently because there is a huge market in which there is still the pawnbrokers, money lenders, many of these jewellery shops where they lend and there is an unorganized market which is very large. So, basically that must come to the formal channel which comprises banks and NBFC's and within that if the market is very local that your branch must be close to the customer. Many times customers do repeat business, so they feel comfort with the people that are there in the branch. So, they want to have a very quick turnaround time because many times the loan gets repaid, they are prepaid, say somebody is borrowing for two months, three months or four months we really do not bother too much about few percent of interest here and there. So, if you look at the industry the organized the market is now huge something like Rs. 3,600 billion or something like Rs.3,60,000 Crores that is what I am seeing the numbers for the industry which is there on my slide 42, and it is also further growing. So, the market is very large actually and there will be a movement from unorganized to organized. Within organized I think customer will value all the things. When you are borrowing for home loan then you are very particular about half a percent, one percent, or two percent because it can make lot of damage over 15 years, but it is a short-term thing then people say fine, it is a small loan say Rs. 50,000 they do not really bother much, but service becomes very important. So, they come to the branch within five years they can take their gold back, within five years they can get the money, somebody from the branch will remind them about interest, or will talk to them. So, all these things matter a lot in this business and now we have started giving home service also.

Amit Mantri: That is very helpful. Thank you very much.

Moderator: Thank you. The next question is from the line of Oon Jin Chng from HPS Investment Partner. Please go ahead.

Oon Jin Chng: Thank you for the call and congratulations on good set of numbers. Most of my questions have been asked and I just want to get for that clarity on couple of issues, one is on the CRE loan transfer you mentioned that about Rs. 3,000 Crores should be transferred out and that you are not pursuing, or you are not growing this loan book further so, overtime this loan book will be exiting the real estate financing business, is that right?

Nirmal Jain: As a group, we do this business through funds and these funds are right now in our alternate investment fund which is part of our wealth management subsidiary. So, we will be exiting real estate financing business from the NBFC balance sheet but in the AIF structure we may continue. But in the AIF structure the contribution of NBFC will be either insignificant or a very small which can be like 2% or 3% or 5% in case we do this. But you are right that when we look at the

NBFC balance sheet or the company, then broadly we will be against CRE funding. Sorry, just one clarification, the existing portfolio that we have will take may be at least three years to fully exit and therefore we will have a team to manage this portfolio and sometimes from the fund they may require last mile funding. So, we are the sponsor of this fund and therefore it is managing that existing portfolio and whatever they require will continue and in housing finance the construction finance in the smaller ticket size will continue as well.

Oon Jin Chng: Got it and in terms of you just mentioned AIF structure will remain your stake or your ownership in the AIF structure what percentage is that?

Nirmal Jain: In this fund it will be at least one-third.

Oon Jin Chng: Sorry?

Nirmal Jain: In this fund, in which SSG is coming in as an investor will hold at least 33-and-one-third percent, not less than that.

Oon Jin Chng: Got Sir, okay 33%, and then you mentioned at least three years to fully form so that Rs. 3,000 Crores will take about three years to transfer over in overtime?

Nirmal Jain: No, the Rs. 3,000 Crores or whatever portfolio we work on, we will get transferred now to exit because the fund has tenure of three years plus because the fund will get the cash flow and then we will get the cash flow for our contribution as well as the residual. So, our exit will happen in next few weeks, but the fund probably will be able to exit in three years.

Oon Jin Chng: Understood, and in terms of just broad numbers again you mentioned two types of the amounts, two types of cash will be released, one that will be income from capital release. In terms of understanding, in terms of provisioning and in terms of your capital adequacy ratios, is there any impact to that and potentially is there any reversal of provisioning as a result?

Nirmal Jain: As I spoke earlier, in terms of capital adequacy this will help but whatever assets we continue to hold on our balance sheet even as investments, they will continue to attract capital adequacy. That much of capital adequacy will be required. But at least may be about up to two-thirds of that portfolio there will be transferred. So, somewhere we target Rs. 3,000 Crores and Rs. 2,000 Crores is taken up by outside investors then the capital adequacy what we are requiring for Rs. 3,000 currently we require only for Rs. 1,000 in future. Broadly it grows in this manner.

Moderator: Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: I think the call has been very useful. Just if you could explain to us the fee income growth has been substantial YoY even the interest income growth has been pretty good. So, what would drive both this year?

Nirmal Jain: If you see our presentation slide 6 where we have given details. So, if you see the fee income it is Rs.153 Crore in this quarter and it was just about Rs. 2.7 Crore in the last year and 137.9 Crore in the last quarter. Now, this is actually broken up in two parts so, one is the fair value changes, this fair value changes in investments and property is on estimated basis, so in Ind-As value is kept on the fair value basis and the gain or loss is accounted for in the PnL, so that is 63 Crore but the largest component which is 89.3 Crore is other income. Fair value gain/loss really changed last year, last quarter it was negative so that is why you see steepest change here. So in Q4FY21, the fair value gain is about 63 Crore and 89.3 Crore is other income which is the income that we get by cross selling and also some incentive that we get on assigned assets and securitized assets. So other income is Rs.89.3 Crores in this quarter which was Rs.59.3 Crores in the last year last quarter and Rs.77.6 Crores in the third quarter, i.e. the quarter before. So, that is the steady stream of income. The fair value change is more of accounting entry and that can be little more volatile.

Prashanth Sridhar: Sure, and the fair value changes come from what kind of assets?

Nirmal Jain: So, it comes from both, the investments and the properties which are held when we acquire something from the defaulting customers. It doesn't include the properties that we use. Also from some of the IPOs we applied as an NBFC and earlier we had a CIBIL shares which we liquidated last quarter, so this is primarily investment in property.

Prashanth Sridhar: Okay, interesting. That is helpful, and just if you could give us one more on data keeping point if I have split this restructuring of Rs.500 Crores what asset classes would they come from?

Nirmal Jain: They are mostly MSME and home loan also. Rs.575 Crores is the complete restructuring out of this Rs.130 Crores is home loan, about Rs.273 Crores is business loan and there one-time restructuring the capital market also is Rs.150 Crores. Broadly these are the restructuring amount.

Prashanth Sridhar: That is helpful Sir. Just a doubt so when you are restructuring in the capital markets that would be what a LAP kind of product that you have restructured?

Nirmal Jain: Yes, it is the LAP kind of product and particularly during last year moratorium time, that is when we did that.

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

Abhiram Iyer: Sir, just one clarification needed. On the AIF fund you mentioned that the cash that will come into the fund of Rs. 1,200 Crores from the investor is their investment in this fund, which means that our current contribution will be two-thirds right not one-third, the one third is the minimum level, and we will be working towards that?

Nirmal Jain: Okay, so SSG contribution is Rs. 1,200 Crores and they are the anchor investor so we started the process now we are as per our agreement with SSG we must get hold of one-third which is Rs.

1,200 Crore's minimum the remaining portfolio we can sell down. So we are talking to some other invertors so that basically we sell it down to some other investor.

Abhiram Iyer: Got it Sir and that is in the process so the work down toward one-third is in the process?

Nirmal Jain: But that may take little more time so, I think if SSG transaction gets completed in this quarter we expect that transaction to spill over to next quarter also quite possible.

Abhiram Iyer: Got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Just wanted to understand this transferring of this CRE portfolio that we have been talking about so, already we have some provisioning on it done so, any kind of impact on the provision that we can see because of this transfer or any kind of haircut that we are taking on that?

Nirmal Jain: No, what is happening is that provision will take care of the haircut let me put this way, so we will not see much impact on the provisioning.

Deepak Poddar: Not much impact on the provisioning?

Nirmal Jain: We put it neither new additional provision nor release of provision so this provision will take care of what we are transferring and what we want to and the balance portfolio in our books also we want to carry some provision, so that is also there.

Deepak Poddar: Okay, so the provision that we have taken the haircut would kind of match each other and you would have not much impact on provision or either side?

Nirmal Jain: Yes, you can say that.

Deepak Poddar: That is, it from me. Thank you.

Moderator: Thank you. The next question is from the line of Oon Jin Chng from HPS Investments Partner. Please go ahead.

Oon Jin Chng: Sir, I am back for my second round. Is the other question I had is on your business loans I see that it was Rs.344 Crores from the disbursements from the ECLGS, just wanted to understand this a little bit the ECLGS scheme the disbursements for this, is this for your customers that for new loans or this to meet their debt obligations because we are not able to see they need to extend?

Nirmal Jain: This is just for existing loans. So, the customers who are good customers and did not have any default as on February 29, 2020 and they were impacted by COVID. So, what Government of India has done is they have given something like 20% additional working capital loan which is guaranteed by government to make sure that at least the customers that were good and not defaulting, they do not become defaulter.

Oon Jin Chng: Understood, and this is about 18% of your new disbursement?

Nirmal Jain: What happens in this space the eligibility criteria are there from the government that the borrower should not be a defaulted and, we require borrowers' consent so what happens that even if some borrowers were eligible that is why out of Rs.6000 Crore's portfolio we have got Rs.1200 Crores, but many borrowers may not be willing to take the new loan. So, if the borrower consent is there and borrower is eligible then we can give this loan.

Oon Jin Chng: Your customers apply to these schemes through your company, or do they apply directly with the government to get access to it?

Nirmal Jain: No, through our company. We must upload the data to certain agencies appointed by the government, but the loans are disbursed and monitored through us only.

Oon Jin Chng: Understood, and in terms of just looking forward then also given because of the second wave of COVID how much visibility or pressure do you see in the business loans and having said that this scheme has a finite amount, so how much access do you have to this funding liquidity and the third question is when I look at your slide 15 in terms of collection efficiency business loan has been lagging the rest of your businesses go home and microfinance. How has this collection been trending in Q1 and Q2 given what is going on?

Nirmal Jain: Now actually it is very difficult to figure out how it will go in future but as of now things are not as bad. In fact, people are fearing much worse than what reality is, because many businesses now unlike say last year when there was a complete lockdown and there was no activity happening and nobody knew how to handle it. I would say most of the businesses today are able to carry out do some activity, they will be impacted marginally and now actually we do not expect it to worsen much whatever report we get from the ground most of the businesses are able to manage and they are also concerned about their own credit score and their ability to borrow in future and they are struggling but it looks like that it may not be big damage. If you look at city like Mumbai the COVID curve flattening has already started, number of cases falling steeply, may be areas where we have good exposure also, we are seeing that things are getting little better. So, the COVID too has a very bad impact in that and it is very nasty, and it has caused lot of damage. But from the economy or business point of view, it has been very quick - the rise is very steep and hopefully fall will also be very steep so we think that we will get over this very soon.

Oon Jin Chng: Understood. Thank you very much.

Moderator: Thank you. The next question is from the line of Isabelle from Ares SSG. Please go ahead.

Isabelle: Thanks for this call. I just had one quick question. I noticed that you mentioned you got back around about $9 million of the US Dollar bond in the open market. Would you be able to share at what price were these bought at?

Nirmal Jain: Good to have SSG on the call. So, they were bought back at 6.05% Dollar yield and we save 4% to 5% of forex cover also, so effectively we get about 11% -11.5% savings in the cost of borrowing that we buy that these dollars bond, so we can borrow it around 8% and 8.5% locally and I think it is good. So, whenever we get an opportunity, we would like to buy back because the Dollar amounts are still quoting in around 6%. 6% in Dollars but as I said when we buy them back, I can cancel the equivalent amount of my forex cover which saves me about 4.5% per annum more may be up to 4.5% to 5%. Does this answer your question?

Isabelle: Yes, it has. Thank you.

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

Nirmal Jain: Thank you so much. Thanks for everybody for being in the call and if you have any more queries or questions, we shall be happy to respond to that, our Investor Relations, Anup Varghese or our CFO, Rajesh Rajak you can address them to anybody. Thank you so much and have a good day ahead.

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