October 27, 2023

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

Sub: - Earnings conference call transcript

Dear Sir/Madam,

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and further to our earlier intimation regarding the earnings conference call for the quarter ended September 30, 2023, please find attached herewith transcript of the said earnings conference call which was held on October 19, 2023.

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

https://storage.googleapis.com/iifl-finance-storage/files/investor/financials/IIFLFinance%20-%20Earnings%20call%20transcript%20-%20Q2FY24.pdf

Further, we hereby confirm that no unpublished price sensitive information was shared or discussed during the said earnings conference call.

Kindly take the same on record and oblige.

Thanking You,

For IIFL Finance Limited

RUPAL JAIN Digitally signed by RUPAL JAIN Date: 2023.10.27 12:48:50 +05'30'

Rupal Jain
Company Secretary & Compliance Officer

Email Id: csteam@iifl.com
Place: Mumbai

Encl: as above

"IIFL Finance Limited Q2 FY24 Earnings Conference Call"

October 19, 2023

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

Moderator: Ladies and gentlemen, Good Day and Welcome to IIFL Finance Limited Q2 FY24 Earnings Conference Call.

From the Management Team we have with us Mr. Nirmal Jain – Managing Director, IIFL Finance Limited, Mr. Monu Ratra – CEO, IIFL Home Finance Limited, Mr. Venkatesh N – CEO, IIFL Samasta Finance Limited and Mr. Kapish Jain – Chief Financial Officer, IIFL Finance Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Kapish Jain. Thank you and over to you, sir.

Kapish Jain: Thank you very much. Good afternoon, ladies and gentlemen. Thank you very much for joining us for the 2nd Quarter Earnings Call for the Company.

I would request Nirmal to just set the ball rolling and give a perspective on the current macro environment, more particularly for our businesses and his outlook on how things look like from the business performance in Quarter 2 and strategy going forward. Yes, Nirmal, if you can start.

Nirmal Jain: Thank you, Kapish. Good afternoon, everybody. So, as we know, globally growth is slowing down and more steeply outside U.S and maybe few countries like India and interest rates are expected to remain higher for longer and in this environment, India stands out in very good shape and a sweet spot.

So, all macro parameters in India show healthy trends. Inflation is in control. Growth is holding up. Demand for credit is strong, interest rate upward movement seems to have paused, financial system is robust, tech collection is buoyant, infra and capex cycle is seeing tremendous growth and services in general are also doing very well too.

So, coming to IIFL:

There is no change as such in our strategy, so we remain focused on retail lending and that to targeting customers underbanked and geographies under penetrated by banks. And that's why we make some good partners with banks for co-lending and sale of our priority sector and small ticket retail assets. Only one bit of change or move in our strategic direction and that is - our maybe the need and therefore our resolve to accelerate investment in digital technology and artificial intelligence or AI.

We are poised to make some rapid strides in leveraging technological capabilities and digital capabilities riding on – on one hand unmatched digital infrastructure that has been created by the government of India and exponential growth in artificial intelligence and machine learning.

Our AUM crossed Rs.73,000 crores mark in this quarter and we are on track towards our guided AUM of Rs. 1 lakhs crores by the end of next financial year.

ROA is close to 4% and ROE has been above 20%. Gold loans, home loans, LAP all these core loan assets grew by about 5% to 7% quarter-on-quarter. Digital loans grew at a faster pace on a small base, and similarly microfinance also witnessed a very strong growth in line with the sector trends.

Interest yield has improved across asset categories, again in line with the market trend, but contrary to market trends, we've been able to contain and keep our cost of funds stable in fact bring down by 10 basis point benefiting from low-cost funding from multilateral agencies and National Housing Bank for refinance for affordable and housing for economically weaker sections.

Also, the full impact of repayment of high-cost dollar bonds that we did last quarter, we saw in this quarter and our improved credibility with banks and other institutional lenders which give us leverage to negotiate our rates. With our time tested strong underwriting standards and collection process, asset quality has improved across the board again, with the exception of gold loan where despite reported numbers being assayed higher, the actual losses or actual risk of loss is very minimal.

We are taking shareholders' approval for capital raise anytime during next one year and enabling resolution to tap the capital market at appropriate time.

With this, I hand it over to Kapish to take you through the financial numbers in greater detail. Thank you.

Kapish Jain: Thanks a lot Nirmal. So, before we go ahead for the Q&A, I'll just give a highlight and a snapshot of how our performance has been for the quarter.

So, for the quarter, IIFL Finance at a consolidated level before non-controlling minority adjustment was 525.5 crores, which is up 32% YoY and up 11% on a quarter-on-quarter basis.

We recorded a pre provision operating profit of around 922 crores for the quarter up by 41% YoY and 16% on a QoQ basis. For the quarter, our consolidated loan AUM grew by 32% to 73,066 crores on a YoY basis it posted a growth of 32% and 7% on QoQ.

Further dissecting the AUM - our core products of the loan AUM is driven by gold, housing finance and microfinance and then the growth here has been around 34% YoY and 7% QoQ from 69,740 which largely comprises of all our retail portfolio and currently now comprises of 95% of our total AUM.

As highlighted by Nirmal, our gross NPA stood at around 1.8% and which is still marginally lower than our guidance to the market of around 2% and our net NPA is around 1% which is significantly lower and down by 58 basis point and 20 basis points respectively when compared to the same period last year. With the implementation of the expected credit loss under INDAS, the provision coverage ratio on NPA stands at around 159%.

In continuation of our capital optimization strategy, 40% of our AUM is either assigned or under co-lending arrangements with financial institutions as of 30th of September 2023 and going forward we will see a larger share of co-lending emerging in this number like what we have highlighted in the previous quarters.

The assigned loan book therefore stands at around 18,429, which is up by 19% YoY and 4% QoQ and more particularly the co-lending asset book crosses a critical milestone of 10,000 crores and stands at around 10,576, which is 125% up YoY and 18% on a QoQ basis. In spite of the rising interest rate scenarios in the last one year where we saw cost in MCLR and the bank repo rising from around 150 to 250 basis points, with more dynamic operations we could reduce our cost of borrowing, got a muted growth of around 40 basis point YoY and sequentially it went down by around 6 basis points led by some of the multilateral borrowing that we did and we also got a very lumpy check of borrowing that we could get from the National Housing Bank in a housing finance company, not to mention the high cost MTM borrowing that we paid off last quarter which had a full impact this quarter as well.

From a liquidity perspective, we are fairly healthy, we stand at liquidity of around 9,000 crores, 9,078 crores to be precise and during the quarter we raised around 5,502 crores through a mix of term loans, bonds and refinance and 4,288 crores was raised through direct assignments of loans to various banks.

As I mentioned some of the key highlights of our borrowing this quarter has been a $50 million of borrowing that we did from US International Development Financial Corporation for financing affordable housing loans and $100 million from IFC World Bank with 50% year marked to promote women borrowers and 50% to a green housing under the underserved category and around 1,500 crores that we have already drawn from the National Housing Bank.

We have a positive ALM whereby inflows cover exceeds and the expected outflows across all our buckets with the net gearing at a healthy position at around 3.3x. Our analyzed ROE for this quarter is around 20.1% supported by a healthy ROA of around 3.9% which moves up earnings per share to around 12.5 for the quarter up 25% YoY and 11% on a quarter-on-quarter basis. Our capital adequacy stands form at around 20.5%, for the Housing Finance company HFC, supported by the capital infusion that we got, it stands at around 47.6% and Samasta is 21%.

Our CRR is of course well above the minimum threshold requirement of 15%, clearly suggesting that we are able to grow ourselves without impacting hugely on the capital position through the on-book off-book strategy which has been holding for us well and not to mention the healthy internal accruals which is coming from the name which we have been able to maintain over the last few quarters.

With this, I opened the floor for questions-and-answer, ladies and gentlemen and thank you very much.

Moderator: Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Shweta Daptardar from Elara Capital. Please go ahead.

Shweta Daptardar: I have a couple of questions. One is for most of the NBFC managements I have been calling, have voiced out concerns on small ticket lending or personal loan segment. Mr. Jain you being a veteran, what are your inputs especially in light of IIFL Finance's portfolio on the digital loan for finance side that's question number one?

Nirmal Jain: So, I think, for personal loan, maybe the fears are not completely unfounded because there has been very aggressive personal loan portfolio build up by some of the new FinTechs and new NBFCs and banks also became aggressive, but banks probably will have more established credit underwriting practices.

As far as we are concerned this is not a thrust product for growth. Our personal is more limited to our known customers as a cross sell, but our digital loans are more focused on MSME and business loans. But in personal loans while I won't have the details, but many of the Fintechs the new practices for underwriting that they follow can have risk and those risk manifest more in the down cycle and then the economic activity slows down. I'll be cautious.

Shweta Daptardar: My second question spurting specifically to gold loan portfolio. So, how are the LTV, ticket size and customer segmentation working for us on the gold loan side, has there been any shifts given the current market scenario?

Nirmal Jain: Not really, I think in our gold loan portfolio, the customer profile because there are millions of customers, they remain broadly the same. In terms of our average ticket size, there is a little increase, so which used to be around Rs. 70,000 last year is around Rs. 73,800 in the last quarter. So, I mean that is basically inflation and the increase in gold prices, but broadly the target customer segment remains the same.

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

Abhijit Tibrewal: Sir, the first question again and I have two question one on gold loans, the other one on home loans both pertains to strong growth that we're seeing in both the segments, just wanted to understand first on gold loans, what would you attribute this strong momentum in gold loan growth? Is it predominantly the distribution that we have built or would you kind of attributed to the fact that you're also doing fair amount of co-lending in gold loans which perhaps allows you to offer very attractively priced gold loans to customers despite being in NBFC. So, if you could just help us understand that while I mean checks seem to suggest that…

Nirmal Jain: I think growth in the gold loan asset is primarily driven by one the distribution that we have built over the last 2-3 years and two our very customer centric and friendly practices that we have. I don't think that co-lending in any way helps because in fact if you really notice co-lending cost is higher than the cost of borrowing.

So, that doesn't allow us to price the product cheaper and in fact, it's primarily because of the distribution strength that we have built. So, if you see the number of branches then the way we have grown over the last 2-3 years has been very significant in fact more than 50%-60% growth in number of branches alone.

And still, if you look at our productivity per branch is around 8.5 crores compared to say 12 crores of the leading player in the industry. So, I will say that the primary reason is the distribution that we've built over the years and then the customer goodwill that we are building and getting repeat business also from the customers.

Abhijit Tibrewal: And a similar question on home loans as well, different industry experts kind of seem to suggest that there is some slowdown that we're seeing in urban affordable housing in ticket sizes between 15 lakhs to 25 lakhs, 15 lakhs to 30 lakhs there about some slow down being seen, different reasons being sighted, some of them say that there is a supply constraint which is there when the CLSS was withdrawn for the developer community.

But if I kind of look at our home loan franchise, it continues to do very well, continues to grow from strength-to-strength. Do you think it is predominantly our business model as I understand it also leverages these developer APFs extensively, which most other at least listed HFCs don't. Do you think that is a moat that we have kind of built in our home loan franchise today which is helping us when there is a more of a narrative of a slowdown that we're seeing in smaller ticket market?

Nirmal Jain: In fact, we have Monu who is the CEO of our Housing Finance Company, he is there in the call and then probably he can take this.

Monu Ratra: So, Abhijit rightly said that we have been seeing the reports that in the metros and the hubs, there has been a constraint in the supply in the affordable housing, but if you look at our expansion of our distribution which we have done in the last about two years' time this is playing out to offset any slowdown in the Tier-1 and the metros.

The contribution of our, which we call as expansion branches, as a percentage of the overall monthly disbursement has increased. So, whatever marginal slowdown we are seeing which is absolutely correct, we have been able to offset by the distribution. Currently we are in present in about 370 plus locations, so Abhijit that is offsetting it.

Secondly, as far as the APF thing is concerned, yes, we have decent relationships which continue to thrive, but majorly this growth continues because of our expansion branches which we have worked on for the last two years and we hope to see, carry that momentum forward.

Abhijit Tibrewal: And just in the interest of time one last question sir, I mean, when I look at Samasta obviously growing at a very, very strong clip, I mean, do you think going forward, you'll kind of look to slow down here or are we still looking at close to 50% kind of a YoY growth for the next two years?

Nirmal Jain: I think maybe for a year or two it may continue at that pace. In fact, in COVID things have slowed down. So, there was a bit of catching up with the natural trend line, but as the base becomes larger, the growth will slow down in percentage terms.

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

Anusha Raheja: Firstly, you said that you might require capital over the next one-year time, so that is for the subsidiaries or for the parent company?

Nirmal Jain: So, the approval that we have taken is for the parent company and in the subsidiary we can, like in Housing Finance we have raised private equity, so, we have both the options available, we can actually raise capital either in parent or microfinance and or both, but that way in terms of our gearing, in terms of our capital adequacy we are fairly comfortable.

So, we'll have to wait for the opportune time otherwise we can wait to we don't have any pressure to raise capital in terms of requirement of capital for growth. We can grow with the current capital as well.

Anusha Raheja: So, the requirement is more specifically from I mean for the parent and for MFI because I think Housing Finance….

Nirmal Jain: We raised capital from ADIA and still our capital adequacy is very high is around 40% 45% or so. So, that's more than adequate for the next few years.

Anusha Raheja: And secondly on the gold loan NPL if I will see there is a sequential rise there to 1.2% odd levels. So, what explains that?

Nirmal Jain: So, gold loan in fact gold jewelry and ornaments are emotional assets of the customer and we generally are little careful before we just put them into auction or say even when the NPA and the customers are regular sometimes if the gold prices have fallen, customer may take some time. So, we just put up with that. But historically if you see the loss given default in this asset class has been minimal or negligible and I think it's a festive season in this quarter and many people released the jewelry. So, I mean it's a small temporary aberration, but I don't see any risk in terms of the product class.

Anusha Raheja: And what was the NHB borrowing during the quarter I missed on to that number?

Nirmal Jain: So, what we are saying is that if you look at our cost of funding on an average has come down by 10 basis point in the quarter and primarily because we get a low cost funding for our affordable housing and the economically weaker section housing finance that we do. So, there's a refinance from National Housing Bank, NHB where the interest rate depends on what kind of customers we are lending to. So, that has been at a lower rate and similarly we got some funding which is at a concessional rate from multilateral agencies. So, that has basically helped us control the cost of funds.

Anusha Raheja: So, far I think this quarter we have managed the margins quite well I mean compared to other NBFCs where they are facing the margin contraction. What is the outlook over the next two quarters, how do we see margins panning out?

Nirmal Jain: Actually, we have focused only on primarily four which are mortgages, MSME lending and gold loans and microfinance. So, in all these and affordable housing, affordable home loans are significant part of mortgages. We have the pricing power in the sense that the market is not so sensitive to interest rates, and we are typically able to pass on the increase in interest rate that happens systemically.

And on the other hand, in the last few years, we have been able to improve our financial position, our credibility through the cycle and also the high-cost dollar bonds that we had which were raised during the times of COVID we have repaid. So, going forward I think we should be able to maintain our margins. Our NIM will remain at around 7.5% or thereabout.

Anusha Raheja: And just lastly on the growth side so far we have seen quite strong growth across segments like home loan, gold loans and on the MFI side, see over the next one to two years are you seeing on the ground level any slowdown in any of the segments or whether growth is a concern or you would prefer to grow at a slower rates or you feel that the current momentum can continue?

Nirmal Jain: So, as of now the demand for credit is very strong and India is still a grossly under penetrated market in terms of credit to small businesses as well as the retail customers. So, at this point in time, I think the momentum for credit demand is strong and the growth trajectory will continue.

Having said this, I will caution on couple of things if the economic activity slows down or if you see some significant pressure on the interest rate which can happen for multiple reasons, then one has to be cautious for that, but other than that if the economy remains strong the way it is today then I don't see any slowdown in the demand.

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

Renish: Sir, just two questions. One is only your IIFL standalone profitability. So, if we look at the cost of FY24 ROE, ROA or in fact in the absolute PAT number that is being far lower than what we have reported in FY22 and FY23, so what expense that profitability hit in first half sir?

Nirmal Jain: So, in standalone one is that you would have noticed that we have moved significantly from direct assignment where the excess income or excess interest used to be capitalized to co-lending and if you see our co-lending book has the cross 10,000 crores milestone in this quarter, which is very significant.

So, I think when you compare the last year there is a significant component of upfronted assignment income and on the other hand co-lending book as it keeps building up you see the co-lending interest income also keeps growing.

Renish: So, is it fair to assume that let us say the shift from a direct assignment to co-lending is actually hitting the profitability at a standalone entity level?

Nirmal Jain: See another thing that happens in a direct assignment many a times if the assets get repaid faster, then obviously you have to take the upfronted income as a reversal also, but we are saying is right that primary reason is that co-lending is basically taking over. So, it is the transition phase and secondly because of Digital Finance and one account is in CRE being restructured, the provisions are higher.

Renish: And sir secondly at the entity level if you look at non-fund-based income this quarter has actually gone up by 23% sequentially, but when we look at the incremental assigned plus co-lending pool that remains static at around 2,000 odd crores. So, what explains that I mean it is fair to assume that because of the higher interest income of the assigned portfolio the spread on the assigned pool might have gone up this quarter?

Nirmal Jain: See what is assigned income growth. The assigned book also has I mean has grown slowly, but there's still a growth, but income from assigned assets -- you are saying quarter-on-quarter or YoY you are saying.

Renish: Quarter sir.

Nirmal Jain: So, banks basically have a reset based on the MCLR. Just give me one minute. This quarter we had an assignment in Samasta normally we had not assigned earlier, but there was a loan assignment of Samasta this quarter. So, what is happening still the co-lending, I mean most clients are not willing, but we are able to assign the assets.

Renish: So, basically this quarter we might have assigned higher under Samasta which is a higher lending book that's why there is a high non fund-based income, is that right?

Nirmal Jain: That's right. So, in the Samasta I think assignment will continue.

Renish: And sir just last thing at the console level what should be the AUM growth over next couple of years we are factoring in?

Nirmal Jain: 25% is what we have guided, and I think we should achieve that.

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

Abhishek: So, just a few questions first on MFI when I look at the gross Stage-3 assets they have not gone up, but the credit cost has gone up sequentially, so have there been any write off because of which the credit cost is higher?

Nirmal Jain: Yes, there has been some write off in Samasta?

Abhishek: Can you quantify how much it was this quarter versus last quarter?

Nirmal Jain: No, the provision has grown up because as the book grow Stage-1, Stage-2 also has gone up and the write off are 98 crores this quarter vis-a-vis 88 crores last quarter in Samasta, but the provision that you are seeing because when the book grows your Stage-1, Stage-2 provision also grow significantly. So, I think that's why my provisions are high, but there is a write off increase of 10 crores also.

Abhishek: And when I look at the yields the data that you have given on the yield in gold loan the portfolio yield has gone up, I think by about 1% in the quarter. So, I mean, can it be so sharp in just one quarter or does this have any kind of one off?

Nirmal Jain: Actually, the gold loan portfolio churns very fast. The average life is 90 days, 120 days also and gold loan yield has started improving from quarter before last. So, maybe we are seeing impact in this quarter. See another thing that happens, and this is the average book is little different from the quarter end book. Now I don't have those numbers with me, but when we reconcile that average book then probably that will explain the story better.

Abhishek: So, this yield is based on the average book?

Nirmal Jain: So, what happens, the yield that give in the financial results is based on the quarter end. Yield has gone up as in the market the competition has eased. In gold loan the impact can be quicker compared to the other asset classes where the assets are much longer term like home loan, but in the gold loan yield can move very fast.

Abhishek: So, the yield hike was taken when in gold loans?

Nirmal Jain: Actually, we started taking from April because in the last year in the last two quarters there was very intense competition from banks and from NBFC. So, this year this financial year from April we started taking, I mean, we got back to the normal rates of interest, and we had quite a few teaser schemes and a low interest scheme that we withdrew in most of the places.

Abhishek: And can you share that tonnage for gold loans for this quarter and last quarter maybe?

Nirmal Jain: There is a 6% tonnage growth, it's 63 tonnes now.

Abhishek: One last question on cost of borrowing, actually two things. One when do we see this cost of borrowing start showing the upper trend because the market rates are stiffer you would have some back book repricing. So, when does it start moving up?

Nirmal Jain: I think we should be able to maintain this at 9%. My personal view is that the interest rates in India at least have paused, and they peaked out. I mean they may not fall, but they might remain at these levels. In that situation, I think we should be able to maintain at the current level 10 basis point here and there it can move around, but not beyond that.

Moderator: Thank you. Next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: See first question is on the operating expenses line, if I really look at your loan growth you have been growing fastest in microfinance and probably followed by gold loans. Now both these businesses have lower tickets and, in that sense, tend to be sort of slightly more OPEX intensive and probably home loans and the wholesale business have lowest OPEX, but I think despite that your OPEX growth is lower than the loan growth. So, you seem to be kind of getting some benefit somewhere, so just trying to understand what's happening here?

Nirmal Jain: We have slowed down the growth in our branches. So, a significant part of OPEX comes when we are setting up new branches. So, if you really look at, we are driving our growth by making our existing branches more productive and taking the productivity of a branch up as much as possible and also with our digital loan business is primarily end-to-end digital and there the manpower requirement is lower.

So, in fact, OPEX is still at a much higher level, and we have maybe room for savings over the next few quarters. In terms of OPEX or a cost-to-income ratio because as I said that if you look at our gold loan branch productivity 8-8.5 crores there is a leading player is at 12 crores and that is a very significant difference.

So, if we keep the branches on track whatever we have. So, the same set of people, same set of branches, if they can originate more assets and build up then our OPEX should come down.

Nischint Chawathe: But microfinance, I mean, practically, I guess the geographies would be different so you can't share branches gold loan again sort of?

Nirmal Jain: Even in microfinance we have 1,100-1,200 branches so that network was also expanded in the recent times. So, if you look at our manpower cost from the quarter-to-quarter basis, that has gone up from 380 to 415. Operating cost has gone up by 7% in the quarter, which is very significant and that is primarily because we are expanding the microfinance network.

Nischint Chawathe: The other expenses which is ex of employees and depreciation it's up around 15% which is like less than half the overall loan growth. So, that's I think where my question was?

Nirmal Jain: No, that is basically because the new branches are not being set up, but the existing branches we add people. So, the new branch addition has been very minimal.

Nischint Chawathe: On the digital loan side I mean this is small businesses but growing very rapidly. So, what is the tenure of these loans?

Nirmal Jain: Now tenure of these loan varies from 6 months to 2 years typically.

Nischint Chawathe: NPL in this book and I think the ratios may not be very accurate representation because it has been growing very fast, but over the last 6 months the NPA in this book has grown by almost like 25%. So, and I would believe that 6 months lag ratio, the fair ratio to look at given the fact that probably somebody may not default in three months, and we have a three-month NPL before that. So, are you worried, are you seeing, and you've been growing very fast. So, are you are kind of seeing any concerning clients because of which you would slow down, it's a small proportion of the book, so it matters less, but nevertheless it's a very fast growing?

Nirmal Jain: So, if you see our Stage-3 provision and this is 73%. So, our strategy here is that the risk is priced in because these interest rates are also higher on these kind of loans and we are prepared that through the cycles and as books mature they can be higher losses. So, we want to keep aggressively providing for it, but even risk adjusted return is quite attractive.

Nischint Chawathe: Your sense is that you would continue to grow this rapidly?

Nirmal Jain: We will continue to grow, at this base, it will grow faster. When the base becomes larger, the growth will slow down and the GNPA, NNPA in this book will be higher than the rest of our other loan books and that will be priced as we go to the customer.

Nischint Chawathe: There are no partnerships in this?

Nirmal Jain: No, we have partnerships to source. We have a few partnerships, but a significant part of business is organic. So, we do have partnerships including Airtel and GPay and others also, but by and large businesses. So, our primary partnership, so our focus for growth is to have digital partnerships where we can get lead and we pay a fee, but we do underwriting and we take the risk.

Nischint Chawathe: **So** sourcing is done by a partner and that is kind of picked up by you it's something that you just pay and pass on the…

Nirmal Jain: What happens in partnership model is that okay there are one or two small partnerships which is in FLDG, but there normally your interest rate in your income is also capped. So, many of the players that have done partnership might give you 15%-16% and then a bit of a first loss, but our primary strategy is that we want to have full access to data. So, we do underwriting, we keep learning and we have full control on the credit quality as well as whom we are lending to.

Nischint Chawathe: See on the yield side your home loan yield is marginally down on a sequential basis and is there anything that that you should be reading?

Monu Ratra: This is a very marginal change I think if you just look at it pretty marginal change and it's primarily to do that how where we are playing out how the areas are panning out. So, there is nothing very significant in the yield change if you see rather the portfolio yield shade gone up only.

Nirmal Jain: It's 11.2% to 11% in the quarter over quarter, but this 11.2 was also bit on the higher side because historically it has been 10%-10.5%. So, it will be little bit of tapering off this quarter.

Nischint Chawathe: Bad rates in any cohorts or is it just competition that is driving this?

Monu Ratra: There is nothing in the cohorts, but it's just the competition which is played out a bit.

Nirmal Jain: This is a competitive segment to be in otherwise overall still overall I think 11% is pretty much okay in line with our strategy.

Nischint Chawathe: Just on the LAP side interestingly the trend is very different your pricing cost seems to be pretty strong although so is it something that it's a very different segment. I guess the ticket size, I mean, how should one really think of it because I think that was also a reasonably competitive segment?

Nirmal Jain: So, for the last about two years like primarily earlier, we've been focusing on LAP only in our hub places, but as we have had experience of expansion in branches. So, we for the last two years we are doing a bit of LAP business in our expansion branches where the expected yields are better than the hub locations which is a very competitive market if you try to give LAP loans in the Tier-1 and the metros. So, the one which we are able to source through the smaller towns, we have better yields.

Nirmal Jain: So, they're in line with the industry, so even the competition are at similar yields, and the primary reason is that this business has significant operating cost as well and is not in terms of the physical collection of the installment as well as processing and smaller locations for a small ticket LAP of Rs. 4 / 5 / 7 / 8 lakhs, the cost of title valuation everything is significant. So, the industry rates are also higher because there's the cost structure of this segment of business as well.

Nischint Chawathe: You know on the microfinance side there have been some concerns in the industry that delinquent customers tend to get refinanced by basically get refinanced by finance company. So, they move from one company to the other. So, I think in this regard what is the policy that you follow?

Nirmal Jain: Actually, all the customers data in microfinance is reported to the bureau. So, this is not very likely, but Venkatesh you are there on call.

Venkatesh N: Yes, with aspect to the policy in terms of our lending, we don't lend to any customer who's more than 30 DPD and who's got an outstanding of more than 4,000. See couple of companies don't report the credit bureau on a very daily basis. So, we give them a levy of 4000 maximum, which could be one EMI in some ticket sizes. So, ours is very restricted into that we don't give to any customer more than 30 DPD.

Nischint Chawathe: Period, which means that if the customer has been an NPA comes out of NPA, you would lend him after a particular period or something of that sort?

Venkatesh N: No, customer is not in an NPA. I'm talking about regular customer.

Nischint Chawathe: That that's right. But I'm saying that customers who sort of come out of an NPA, is there a cool off period for re-disbursement?

Venkatesh N: Yes, that naturally applies. We also look at the credit bureau, we have a track record of the customer and she's coming out of the NPA we definitely will not lend.

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

Deepak Poddar: My question revolves around your ROAs, I mean, now this quarter also we have seen a very good growth and accordingly ROAs is 3.9%, but what sort of sustainable or steady state or aspirational ROA as a business we are looking at going forward now considering also because you told that your co-lending share will increase so the that will be ROA accretive that's what I presume so some color on it would be helpful?

Kapish Jain: So, if I can just pitch in as Nirmal mentioned in spite of the rising interest rate scenario, we have been able to pass on our rate hike to our borrowers, our spread across quarters have actually moved up. We have done our investments regard to branch expansions, which means that they wouldn't be any more incremental investments coming in to meet the growth targets from our operating expenses perspective.

All these attributes should help us in maintaining our overall NIMs and with better optimization on our cost, we believe that we should be able to maintain our ROAs in the range which could be between 3.7 to 3.9 touching towards 4. So, we believe that we should be able to maintain our ROA at the levels where they are today and there could be some more sweet spots as well there, yes.

Deepak Poddar: My second question is on your credit cost. I think ideally that could also help your ROA because ideally your credit cost in the range of 2.25% to 2.5% is little on the higher side, right? I mean considering the kind of rates.

Nirmal Jain: Yes, it should be, on the more longer-term steady state basis, should be within 2%.

Deepak Poddar: I mean why not below 1.5% by 1% higher?

Nirmal Jain: That’s right.

Deepak Poddar: I was trying to understand why it can't be below 1% I mean because of the MFI business that you expect?

Nirmal Jain: I will tell you what over a period of time. So, microfinance business historically prior to Covid used to have much lower NPA, but now in most of the industry we will expect longer term credit cost in microfinance business to be around 2% or so. Similarly, in digital loans it can be little higher than 2% also.

And what you're saying is right that is if you look at home loan and gold loan should be much lesser, but I think as things stabilize over a period of time, then again it depends on the relative share of the unsecured loans and microfinance and digital loan, but it can be lower, it should be lower, if not 1 at least maybe closer to 1.5.

Deepak Poddar: Yes because that straight away adds 0.75% to your ROA, right?

Nirmal Jain: Yes, it should.

Deepak Poddar: So, trajectory which is at 3.5% to 4% can inch towards 4.5% if our credit cost comes below or closer to that 1% mark?

Nirmal Jain: Yes, that is there, but at the same time Deepak there will be little competitive pressure on the margins also over a period of time, I mean what you are saying in one scenario it can happen and at least the credit cost should go down and that should straightaway add to the ROA, but there will be many other variables and there are many other moving parts.

Moderator: Thank you. Next question is from the line of Prakriti Banka from HSBC Mutual Fund. Please go ahead.

Prakriti Banka: Just one question I don't know if you already answered that, but how did you manage your yield in the gold loan book in this quarter?

Nirmal Jain: Gold loan yield across industry I think would have improved because last year Quarter 3 and Quarter 4 there was sort of intense price war kind of a thing because some people started teaser and larger players started following up. Many banks also got into this with a lower rate of interest, but I think many banks also now discover that if they do the separate profit and loss account for gold loan then the operating cost is much higher.

So, it is not something which is because you are doing a Rs. 50,000, Rs. 60,000 loans for a shorter tenure then the cost is higher. So, I think it is actually the yield that is going back to the earlier level; it's getting normalized, in between there was an aberration when the yield came down.

Prakriti Banka: So, do you think there is still some scope for this to go up further?

Nirmal Jain: No, I think they will remain at these levels.

Prakriti Banka: Because even I thought by Q1 itself, things were sort of normalized, which is when you were at 17.5 and in this quarter, it's showing even higher than that?

Nirmal Jain: Yes, impact comes actually with the lag of one or two quarters actually because as earlier loans get repaid because they are at a contracted rate which can be lower. So, it always spreads out over a couple of quarters.

Moderator: Thank you. Next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: I just wanted to touch on the fundraising, although it's only an enabling provision. Now, considering we are moving largely off book which is co-lending and DA at 40% is what we are at, I think for that book and we are guiding for 25% growth, I think then 60% of the 25% only needs to be funded through internal accruals or equity because even if I consider the co-lending portion of 20% probably, it should be at 17% or 18% and we are already making kind of 20% ROE overall and we are expecting ROAs to remain stable. So, would this additional equity of 3,000 crores be a drag on your ROEs whereas you can easily fund your estimated growth of 25% through internal accruals itself considering we are moving more and more off book?

Nirmal Jain: It's a good question and so if you don't do this then probably the ROE can move up further as our profit keeps adding to the pool. But as we are in a finance business where, from a rating agency point of view from the banks that are partnering with you they also want to see a balance sheet becoming stronger as your total assets grow. I mean it's not necessary that we raise 3000 crores, we said up to 3000 crores.

But whatever equity addition happens, which can be to our networth 20%, 30%; which maybe in next 12 months to 18 months, we can catch up in terms of ROE and that will also help us grow a little faster than what we've been growing till now.

Jigar Jani: So, there might be a chance that your growth trajectory might move higher post the equity fund rate and any plans to go inorganic in terms of growth for this fundraise?

Nirmal Jain: We are open to opportunity, but there is in nothing in the pipeline, but yes, if there are good opportunities we can always look at them.

Moderator: Thank you. Next question is from the line of Adarsh from Enam Holdings. Please go ahead.

Adarsh: Sir, broadly if you can break up the assignment assets in the categories and same for the colending and can you explain the economics for both these books both for you and for your partner?

Nirmal Jain: So, assigned assets we had 18,429 crores as on Q2 FY24 and co-lending is 10,576 crores. Most of these will be home loans and gold loans, but if you want a breakup, just give me a minute.

Nirmal Jain: So, roughly 7,500 is mortgage assets, 8,900 or so in gold and the remaining is microfinance in the assigned book and the co-lending book again primarily is gold, LAP and housing.

Adarsh: Just from a co-lending book can you just explain the economics like how did it work for you and for the LAP?

Nirmal Jain: For every product like LAP, home loan and gold loan, the interest which banks will retain is negotiated separately, also based on the credit policy in the region and the geographies that we do. So, supposing I'm doing the gold loan I would say 16% and I agree with bank as there let's say 9.5 then what happens at every quarter whatever interest is accrued that comes into the escrow account 9.5 goes to them and the remaining comes to us. So, that is about co-lending. In case of assignments, we take the total income, make an NPV based on the probability of that income accruing, reduce the cost of servicing from that and that is upfronted.

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

Abhijit Tibrewal: Sir, again going back to the personal loans again you yourself said that you will kind of remain cautious in personal loans, while given the small base I take an opportunity to grow strongly even from current levels, just kind of trying to understand why the risk adjusted return have at least at an industry level there have been discussions happening around small ticket personal loans where the ticket size is less than Rs. 50,000. Have you had a chance to see what proportion of your customers or what proportion of your digital loans have ticket sizes below 50,000?

Nirmal Jain: Personal loan is happening in all sizes like the BNPL Rs.5,000, 10,000, 3,000, 20,000 all kind of things. So, we'll have a reasonably good number of our loans less than Rs.50,000, but primarily our loans are to self-employed professionals or the small shopkeepers, businessmen and the micro enterprises.

Another thing is that even personal loan as a category as an asset class, we can't paint it with one brush there are many banks they are doing smartly and very cautiously. So, when I said my worry is more about the new players there, they are still moving up on the learning curve in terms of credit underwriting and they are trying to achieve aggressive growth. So, there's a class of lenders or the segment of customers that they're targeting is more risky and the market is very big and the type of loan that you know get categorized as personal again is of very wide variety.

But in our case mostly now our focus, there can be a small part of it as a personal loan. Sometimes people like sole proprietor, they run the entire thing through their personal accounts. So, it becomes the blurred line between personal and business loan. But our focus for growth is more on MSME and business loans. I think the credit risk is different when people are borrowing for consumption and people are borrowing for business or income generating activity.

Abhijit Tibrewal: Sir, just one follow up here I mean have you seen any divergence in terms of delinquency collection and asset quality when it comes to MSME business loans originated organically versus once originated through partnerships, any divergences in collections, asset quality between organic sourcing and one originated through partnerships?

Nirmal Jain: So, we have multiple partners, and our experiences have been different. So, I can't reveal the names, but some of the partners that we experienced were not good. Then we realized that the profile that they target is different, so we slowed down or discontinued that partnership, but it varies across because the whole segment is so heterogeneous and it's so wide, it's very difficult to bracket, but you are right that our experience with different partners has been different, and we keep taking corrective actions where our experience is not good.

Abhijit Tibrewal: And just one last question while taking an enabling resolution for equity inclusion, your subsidiary Samasta as well there are you kind of looking to bring a strategic investor on board or is it more like the parent infusing capital into the microfinance etcetera?

Nirmal Jain: It is not strategy, but we can get a private investor or parent can infuse. So, either way, we have to see what kind of opportunities or what kind of investors we have, and we take a call on that so it's like open. There's nothing which has been not done till now.

Moderator: Thank you. Next question is from the line of Vidhi an Analyst. Please go ahead.

Vidhi: Sir I just wanted to ask today our branch count is 4,596 versus 3,700 last year. So, when do these branches start contributing at the operating level and how much time does it take to breakeven?

Nirmal Jain: In microfinance when the branches grow above particular size it is splitted. So, the cost structure microfinance is much lower compared to say gold loan where we need to put a vault, IT, camera, security and everything. So, typically, I would say 80% to 90% of our branches breakeven between 18 months to 24 months. There will always be some exceptions which take little longer and some exceptions which can be much quicker.

Moderator: Thank you so much. Sir, we don't have anyone in the question queue.

Kapish Jain: Thank you very much ladies and gentlemen. It was quite an intriguing session and in case you have any further questions, you can drop an e-mail at ir@iifl.com and we'll be happy to connect and give you any further detail that you might be looking for and let's stay connected. Thank you very much.

Nirmal Jain: Thanks everybody and season greetings for the festive season to everybody. Thank you.

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