IIFL Finance Limited
(formerly IIFL Holdings Limited)

Consolidated Financial Results – Q1FY21

Conference Call Transcript
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Management

Mr. Nirmal Jain – Chairman

Mr. R. Venkataraman – Managing Director

Mr. Rajesh Rajak – Chief Financial Officer

Mr. Anujeet Kudva –Chief Risk Officer

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

Nirmal Jain: Thank you, Rajesh, and welcome to all on this call. As all of us know, the current scenario due to COVID continues and life is still not back to full normalcy. It is really unfortunate for humanity as a whole that such huge loss of lives have been caused as well as health has been affected and we pray for the fastest recovery and conquering of this disease. However, having said that, COVID also has shown us many opportunities for business and for IIFL Finance in particular, we see opportunities in a couple of ways. First is significant savings in operating cost and the second one is completely digitizing and accelerating the digital journey for our customers as well as our back-end processes.

There are two major factors that have driven significant cost savings or can further drive potentially going forward. First is discovering that working from home is very easy, convenient and can be very efficient as well. That allows many other organizational and workflow changes, including delayering of the organization with the largest span of control and also centralization of many processes which were hitherto decentralized. As a result, you will have a lot more scaled economies as we centralize the processes.

The second factor is the acceleration of digital and e-everything and the acceptance of the same. As a result, the paperless, presence less mode is working very well now and is getting traction. Technology was always there, but I think adoption of the same has increased significantly, and that is what can probably drive or can change the way business is done, this coupled with cloud and mobile technology is going to change the operating metrics as we go forward.

In IIFL Finance, we have moved all our software applications and servers to the cloud. As a result, almost all our key people can operate on mobile devices or tablet, which provides significant mobility and flexibility without compromising on security.

Now as this will require re-imagination and redefinition of most of the processes, what we have begun doing to start with for business loan, is a complete end-to-end digital process. So we work more like a Fintech company and this can be followed. Like we already have our 'Insta home loan' product, all our home loan products or all our lending offices can be fully digitized, which will allow us to centralize many functions and save operating costs.

In terms of strategy, what we articulated last time, I will just update on the two aspects i.e. growth and asset quality. So in terms of growth, there were always concerns about at least in last 18 to 25 months about liquidity. I am happy to say that liquidity is easing now and as far as we are concerned, we got about Rs.1,755 Crores of cash and bank balance as of June end and another Rs.1,990 Crores of undrawn credit lines, which is sufficient to meet all our debt obligations, contractual obligations till at least, say, February 2021. We also do not want to carry more than this kind of liquidity because that has a significant cost. You borrow at 9% and if you have to put your money in liquid or bank at 3%, obviously, the cost is pretty significant. So given that the liquidity situation is easing, the business environment is also improving and we have seen that the disbursement has improved significantly in gold loan as the branches opened in the month of June and, in fact, out of our total gold loan branches, less than 5% of them are closed because they are in containment zones. Almost all other branches are open, and we are seeing that the footfall in business is increasing month after month.

The way we look at asset growth going forward is, we want to originate assets which are all eligible for being taken over by banks. So in a way, we complement the banks by originating loans that they would like to have on their balance sheet, but they are not able to do on their own at the terms that we do and so we have revamped all our loan origination credit processes and tried to make it eligible for banks. We are talking to quite a few bank alliances and partnerships for co-lending and co-origination. Obviously, in COVID-affected times, things are not moving as quickly as we would have liked them to. But as soon as things become normal, we are hopeful that a few alliances will kick off and that basically will be the model that we wanted to work on.

Coming to asset quality, assets under moratorium had come down from 60% in May to 31% in June and maybe by the end of this quarter, we will see further improvement there. I mean the moratorium assets is expected to further fall, which is good because when we exit from moratorium. These are the assets where one will have question mark whether those borrowers will be able to pay or not. We are working systematically on that as things are getting back to normal, maybe a little better than what we expected.

In terms of asset quality, also, we have a portfolio of Commercial and Real Estate (CRE), which is one of our non-core businesses, where we have not been originating new loans, and we want to taper off or we want to reduce this portfolio going forward. We have been in talks with a few funds or investors where we can bundle the entire portfolio and be the sponsor, or contribute to the sponsor capital and have external investors. Even these talks are not progressing at a quick pace because of physical limitations of people to visit and do the diligence, but I think in the next few weeks we should see good traction there.

So with this, I will hand over to Rajesh again to take you through the financial details and then we will open up for questions and answers.

Rajesh Rajak: Thank you, Mr. Jain. I will give you all a brief update on our business. IIFL Finance net profit was Rs 228.2 Cr in Q1FY21, up 5% QoQ and 26% YoY (excluding exceptional items of COVID-19 provision Rs. 194 Cr and Rs 70 Cr MTM loss on forex borrowings and forward hedge)

Loan AuM grew 10% YoY and 1% QoQ to Rs 38,335 Cr. Core segments grew faster at 12% y-o-y to ₹33,194 Cr. Retail loans, including consumer loans and small business finance constitute 88% of our loan book.
Our Tier-I CAR stands at 15.3% and total CAR at 19.3%

A strong characteristic of our loan book is the large proportion of loans that are compliant with RBI’s priority sector lending norms. About 63% of our HL, 48% of Business loans and 91% of our MFI loans are PSL compliant. In aggregate nearly 43% of our loans are PSL compliant.

The large share of retail and PSL compliant loans are of significant value in the current environment where we can sell-down these loans to raise long-term resources.

Our Average cost of borrowing remained flat y-o-y and declined by 10 bps q-o-q to 9.3%

Consolidated GNPAs and NNPAs stood at 1.95% and 0.86% of loans respectively, as against 2.31% and 0.97% respectively in Q4FY20

Provision coverage (incl. standard assets provision), under IndAS norms, on stage 3 assets was 183% for the quarter. Coverage excluding the additional provision made for Covid impact stands at 101%

Return on assets for the year was 2.7% and ROE was 19.5%, excluding impact of one-off items

During the quarter, we raised Rs 1,005 Cr through term loans and refinance from banks.
Loans of Rs 877 Cr were securitized/assigned during the quarter.
Cash and cash equivalents and committed credit lines from banks and institutions of Rs 3,745 Cr were available as on June 30, 2020.

We continue to have nil exposure to commercial paper

Our funding mix is well diversified including 25% from NCDs including sub-ordinate debt and MTN issue, 35% from bank term loans, working capital finance, 7% from NHB re-finance and 33% from securitization/assignment

We have a positive ALM, whereby inflows cover or exceed expected outflows across all buckets.

As at the end of the quarter, 31% of our consolidated book was under moratorium, down from 60% at the end of May.

An additional provision of Rs 194 Cr was made for possible impact due to Covid 19.

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

In addition to the one-click digital personal loans launched last quarter, we launched a one-click online top-up module for Gold Loans this quarter, and are seeing good traction in the same.

IIFL Loans App is being increasingly used for various transactions by customers and has been especially beneficial since the lockdown, giving customers ease and convenience of access. We have about 1,50,000 avg active users on the app for the month of June.

That brings an end to the update. We will now open the floor for any questions.

Moderator: Thank you so much. We will now begin the question and answer session. The first question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anitha Rangan: Thank you. I just wanted to know if you can give some color on the liquidity position. As in what are your discussions with the banks or some of the market participants in terms of getting more financing and so on? And secondly, in terms of the asset quality, how do you see it go post moratorium? We are at the end of July and perhaps at the end of August moratorium will be withdrawn. How do you see the situation panning out after that for each of your business segments?

Nirmal Jain: So in terms of liquidity, all the banks have been more constructive, more positive after June, and now multiple windows for liquidity have opened up. Under the Government's partial credit guarantee scheme, banks have subscribed to bonds. So we had about Rs. 200 Crores of bond issued last week. Then the short duration liquidity window has just been opened up. There, I think proposals will be taken up this week or next week. For term loan also, we have started discussions and negotiations with the banks. For the loan assignment, we did one transaction for about Rs. 800 Crores . We have got principal approval for another one. So I think the liquidity in the system is quite easy at this point in time. Just the flow to NBFCs is now opening up; maybe the banks are selectively opening up. I do not think that they will probably open up to all the NBFCs, but they have started discussing it. They have started taking up our proposals and discussing the applications, and it looks very constructive as well as positive. So my assessment would be that liquidity has eased and will continue to ease from here on. We also have to look at interest costs going down. As of now, the divergence in AAA and AA and other rated papers has widened to historic highs. The divergence has to narrow. So one has to look at reducing the interest cost as well. Secondly, asset quality as far as we are concerned, we do not have any concern on gold loan and home loan and if you look at in the month of June, our collection efficiency for home loan and microfinance both has gone up to 75%, and for gold loan, it is nearly 100%. So the only segment that one is a little cautious about is business loans, but there also there is a government scheme where you can have a top-up loan of upto 20% to ease the liquidity pain, and we really have to wait and watch how long the moratorium lasts. Will there be another renewal of moratorium, and when we exit from moratorium how things are? But as I said in my opening remarks that we have been able to bring down the loan assets and the moratorium from 60% to 30% in June and I would think that in the next two to three months before we fully exit from moratorium, they may be further brought down to anywhere between 15% to 20%. I do not think there will be a significant impact and it should be manageable. We have taken additional COVID provision in this quarter as well as last quarter. So that should more than suffice.

Anitha Rangan: Just one more question, why has your AUM increased in this quarter? Has there been some additional disbursements in some sections?

Nirmal Jain: Yes, there have been disbursements. So in gold loan and home loan, both, we have disbursements picking up. They are gathering momentum and the gold loan AUM has grown by 4% QoQ. Home Loan AUM has grown by 1% QoQ. Business loan has been flat, where the new disbursements are equal to what has been the run down. Even within the quarter, if you look at our disbursements during the month of June, they were almost twice that of the month of May and in the month of April business was almost shut. So there were no disbursements in April. But as I see the disbursements are picking up.

Anitha Rangan: Thank you.

Moderator: Thank you. The next question is from the line of Love Sharma from Lombard Odier. Please go ahead.

Love Sharma:: Thanks for the opportunity. Thanks for the presentation. A few questions if you can help me understand in the first quarter, what has been the cash movement in terms of disbursements which we have done during the entire first quarter? And on the debt repayment side, scheduled and unscheduled debt repayment, which have been done? And any moratorium which was availed during this first quarter on your borrowing?

Nirmal Jain: In terms of moratorium, we had requested all the banks. So those who did not give, we are paying them on time. Almost all the public sector banks have more or less accepted the moratorium on principal. Interest is something that we are paying on time and the private sector banks have not accepted moratorium. So whenever the installments fall due, we pay them as and when in time. So it will be Slide 17 in our presentation that basically shows the debt repayment schedule based on whether the moratorium given or not given by banks. So now at least picture is clear that there are certain banks that have given moratorium, some lenders have not given. Based on that, if you look at the debt obligation scenario, and along with that the cash and bank balance and undrawn credit lines that we have, we are covered till February 2021. On Slide 18 is the ALM 2, which is based on the submission to RBI that we do. But for RBI we do the same for standalone companies. This is a consolidated picture, which basically takes a static situation that we are not going to disburse any further. We are going to collect only the standard part of the book and only the fixed deposits, which are encumbrance-free, we can take as liquid assets. So based on that also, we have a positive surplus till 5 years, and that is what we attract. So that is about the moratorium and the liquidity part of it. And in terms of fresh disbursements, for example in gold loans as we have the branches opened, many loans have been repaid and taken. So if you look at only disbursements for the last quarter, they are to the tune of almost around Rs. 2,500 Crores. But if you look at the loan book, it is flat QoQ because many of them are rotational actually, because in case of gold loan, it happens a lot since due to the short tenor people keep paying the loan back and there are new borrowers who take fresh loans. So businesses, except for Mumbai and Delhi, in most other parts of the country, we are seeing that in the month of June and July things are pretty much getting back to normal. I would not call them pre-COVID level, but at least 60%-70% of that level is happening. Like, in home loan, we had a disbursement of around Rs. 170 Crores in the month of June and in our normal month, we will look at Rs. 300 Crores.

Love Sharma: Understood. Would you be able to share what collections have you received, let us say, in the June month?

Nirmal Jain: Our collection efficiency is what we want to collect and what we end up collecting on an aggregate basis. In micro finance, having collection efficiency of 75% is a good news, because that is something where we were worried. In the month of June, collection efficiency was 75%. In home loan also, it was 76%. In gold loan, as I said, it is close to 100%. On total collection basis it was more than 100%, but then that covers the earlier month also. So collection efficiency in these three core segments has improved and in business loans, it is about 53%. So this is how is the collection efficiency has been. I have given you the number not for the quarter but for the month of June.

Love Sharma: But, just to be clear again, so that I do not mix it up. So basically, what you mean is, let us say, for business loan, 53% efficiency would mean?

Nirmal Jain: Business loan 53% collection efficiency would mean out of all that is due under business loans how much we are collecting.

Love Sharma: Understand. So that is basically more in comparison to the, let us say, pre-COVID level, correct?

Nirmal Jain: Yes. So business loans we collected 53%, but because of moratorium collection is low. Pre-COVID level, if you look at the month of January, our collection in business loans was around 86%. But in all other segments, it is moving pretty close to pre-COVID levels. But like in the home loan segment, typical efficiency would be 95% plus. But right now, we have 75% because around 24% of customers would be under moratorium. But for non-moratorium book, it would be pretty close to pre-COVID level.

Love Sharma: Thank you. That is it from me.

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

Amit Mantri: Can you explain what is the reason for the NIM expansion that we are seeing on a QoQ basis? Is that because of the rising share of gold loans?

Nirmal Jain: Yes, because the incremental loans are only gold loans. So if you see in the quarter ended June 2020, the growth has been in gold loan only and other components, like, have reduced a little bit. So that is the reason you see that the NIM has expanded.

Amit Mantri: In gold loans, are the yields likely to go up further as your lending rate highest are now around 1.8%, which would be around 24% annualized? So would you continue to go up in gold loan segment?

Nirmal Jain: No. I do not think our lending rate is at 24%. I do not know where you have got the data from.

Amit Mantri: At the branches basically when we check. They say the highest rate is 1.8%.

Nirmal Jain: No. I think what happens in gold loan is the customers, basically based on their credit and track record they get a lower rate also. So supposing you are a gold loan customer and you have been always paying in time, then the rates can go down to 12%-14% also. On a weighted average basis, we have 19.4%. So it will remain in this range only.

Amit Mantri: What is the outlook on the cost of funds? Has the new corporate capital that you have been raising over the last quarter and also in July is it coming at a lower rate than your current cost of borrowing?

Nirmal Jain: We have seen 10 basis points fall in last quarter, but we expect cost to further go down. So when the liquidity crisis has been there, many NBFCs, and we also were not really negotiating too much with the banks on interest rates. But as we go forward, I think we should be able to negotiate and bring it further down.

Amit Mantri: What are the aggregate loan loss provisions that you are now carrying on the balance sheet, including the COVID provision?

Nirmal Jain: It is 183% including COVID provision and without COVID provision it is 101%. So even if we exclude COVID, we are covering all our GNPAs with provisions other than that for COVID, but including the standard asset provision which is as per RBI norms.

Amit Mantri: So in rupee terms, that will be around Rs. 1,300 Crores plus of provisions that we would have, right?

Nirmal Jain: What you are saying is right actually because Rs. 454 Crores is our COVID provision. So put together, I think the number is right; it will be around Rs. 1,000 Crores

Amit Mantri: Thank you. That is it.

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

K. Sivakumar: Thank you for the opportunity. Sir, you were giving the collection efficiency segment-wise. I just did not get the number for business loans and MFI loans.

Nirmal Jain: Business loan is 53% in the month of June. MFI loan is 75% in the month of June. But MFI was 0% in April, 3% in May, but June numbers for MFI is 75% and business loan is 53%.

K. Sivakumar: Okay. But in the business loans, almost 50% is under moratorium, right?

Nirmal Jain: Yes. So May, the collection efficiency was only 37%. It is improved to 53% in the month of June.

K. Sivakumar: Okay and how much of the AUM has got to the government-related support, SME segment support?

Nirmal Jain: As of now, we have not done much. It is significant amount at all. I mean, we in terms of eligibility, we can disburse up to Rs. 500 Crores- Rs. 600 Crores, but that process has just started.

K. Sivakumar: Okay and would you go the full distance? You will reach Rs. 500 Crores or the number would be very low?

Nirmal Jain: The thing is that, even the borrower has to agree. We cannot force it and so this is a contractual thing where both have to agree. And also probably maybe only a small part of that will be utilized. We will not be able to disburse the entire thing. Some of the borrowers are not asking for it. For some of the borrowers, we may not be comfortable in giving them.

K. Sivakumar: I was just wondering why the borrower would object to that because he is in the moratorium, and he definitely needs some cash flow to start the business again and there is government money which is coming in. Everything is favorable from a borrower point of view. Why would any borrower object to this?

Nirmal Jain: What is happening is that some of the borrowers have been paying, they have not taken moratorium also and some of the borrowers do not want to increase their debt burden for 2 reasons, one is either they have good liquidity or, two, they are not very confident of their business environment. This is another counterintuitive phenomenon, supposing a customer says that my business is shut, it is not doing well, why should I borrow more money at this point in time? So let the business reopen, let me see how things are, then only I will take a call on that. Because borrowers know that at the end of the day, he has to repay that money, sooner or later, along with interest. So where the businesses have not started fully, there also they do not need money.

K. Sivakumar: Sir, and among the segments, this business loan itself looks to be a very sticky one. In the sense, the decline in moratorium is the least in this particular segment. Are you approaching collections differently in this segment? What are the initiatives you have taken at your end because this seems to be the key to improve the recoveries going forward? Any particular initiatives that you have taken at your end to address this?

Nirmal Jain: I think it is a very good question and a valid point. So we have intensified our collection effort and we are in touch with all the borrowers and at least, we think that it is just question of time. Most of them basically as soon as things get normal and maybe in this quarter, we will see a good number of those customers coming out of moratorium or opting out of moratorium. So at this point in time, in business loans, we are not disbursing new loans much. So our sales and collections, both the teams are engaging with the customer, tracking them very carefully and trying to see that how quickly we can get them out of moratorium.

K. Sivakumar: Right. Sir, and in the business loans, can you give out some sense as to how much is agriculture-related AUM? How much is dairy related, which can give us more comfort as to the recoverability of those moratorium-related loans?

Nirmal Jain: Agriculture related loans may be there in MFI and in some part of gold loans. But in business loan, there is no agriculture or rural exposure.

K. Sivakumar: Okay. Someone indulging in agri-related, say, trader, wholesale trader, who does agricultural?

Nirmal Jain: Approx. 70% plus of business loans will be secured by a property. They are LAP loans and the collateral there covers us. If you look at the loan-to-value, the collateral, is at least twice. So 49% is the LTV. So there, I think we will have support because in case of a default you can get the property and recover the money and typically, we have seen historically, when you have a loan, the collateral of property which has a good margin of safety, then your probability of loss is very low. In unsecured loans, since last more than a year, we have tightened our credit underwriting policy. So typically, we are very careful in terms of what the debt burden ratio is and what the credit score is. So if you ask me, as I said, more than two-third of book is with the collateral of property and for the rest one-third also I do not expect any significant risks there.

K. Sivakumar: Right and Sir, would you continue to take COVID-specific provisions in the coming quarters also? You have already built a provision of around Rs. 454 Crores, right? So would you continue to do that over the next few quarters?

Nirmal Jain: No, we do not have to. This is as per RBI guidelines. So what RBI said is that for your moratorium assets, you have to take 10% provision, 5% in March and balance 5% in June. So I think it is done now. So I do not think COVID provision will be required unless RBI comes back and they extend the moratorium and they ask us. But otherwise, it will not be needed.

K. Sivakumar: From your own internal assessment, sir, this 31%, what do you think will be the final NPA that one would expect in Q2?

Nirmal Jain: I think the COVID provision that we are carrying, based on RBI guidelines plus the ECL assessment, is far higher than what we will actually need. So I do not think our losses will be anywhere close to this. Because of COVID I think we are carrying a fairly conservative in terms of provisions. So we have very high provision coverage.

K. Sivakumar: Right, Sir. Sir, on the management transition, with the exit of Mr. Bali, are you looking to hire someone in the CEO role? Or would you continue in the interim?

Nirmal Jain: No. We are not looking at hiring, so I am continuing.

Moderator: Thank you. The next question is from the line of Vihag Mishra from Kotak Mutual Fund. Please go ahead.

Vihag Mishra: Congratulations, first of all, for reporting a reasonable set of numbers in this tough time. I only have 2 questions. One, I think the part that you have just highlighted about the credit cost, the cost should not be beyond the provisions that you already carry, is that understanding correct?

Nirmal Jain: Yes.

Vihag Mishra: The second question is on the wholesale book. I think you just mentioned that a large proportion of this you are trying to put it in a fund format in which you will only invest a part of the capital. I think, initially, about 2 quarters ago, there was a time line given. By end of December you expect this book to be moved out. Has that time line changed and if you can throw some light on that time line that will be great?

Nirmal Jain: I think whatever has to be done will happen before December 2020 and so there are a couple of things. One is that the process has been a little slow, but still we have adequate time till December 2020, but we are still engaging with funds and talking to them. But the second point which is important is that as far as our loan book is concerned, the CRE in particular, what is happening is that the stress in real estate is not something where you can paint the entire sector with one brush because our exposure is mostly in affordable segment. Contrary to normal or popular belief, because people are getting conservative, we are seeing good traction in some of the projects in the affordable segment. So like some project in Thane, even during this lockdown period, there has been good number of bookings as well as inquiries. So we are not in a desperate situation to agree to any terms and get this book out. But at the same time, given the fact that strategically we are not doing any new loans in this sector and we want to emerge as a 100% retail-oriented NBFC, we are working on this. The timelines remain the same. It depends on two things. One is getting terms which are fair to both sides and secondly, as soon as things resume normalcy then people should be able to do diligence because most of these investors would like to physically see the projects or at least maybe some sample of it and negotiate the terms. Hopefully, that should get done before December 2020.

Vihag Mishra: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Sureka from DSP Mutual Fund. Please go ahead.

Vivek: This is Vivek here. Just a couple of questions one around the home loan portfolio, when you say home loan, you said all retail home loans or do they include LAP also? And because of the costs, I mean, other lenders are able to reduce costs depending on the ratings and so on. Are you seeing any churn off of your portfolio to other lenders, which happens where the customer gets acquired by other NBFCs or banks?

Nirmal Jain: Home loan and LAP, we report separately. If we did a home loan, then it is pure home loan. Average ticket size is at Rs. 18.6 lakhs and that is about 1/3 of our portfolio and the LAP is included in business loans. As I said, there are almost 2/3 of business loan will be LAP. They are completely different. The average ticket size in LAP also is not very significant because maybe business loan is combined there, so home loan and LAP are separate. Now to the second part of your question, in

COVID, we have not seen significant request for balance transfer to banks. But normally, we are competitive because our boarding yield I mean, as of now for our home loan it is around 10%, but that comprises of mix, including the segment where we are lending at a slightly higher rate. Normally we are fairly competitive with the banks and other housing finance companies, although this may sound a little bit of a surprise to many analysts. But what happens in home loan is that we get refinanced by NHB and we get refinanced depending on the type of loan, even at 7% or less than that also. So we can compete based on the segment. So there are home loans where we give loan at 9% or sub-9% also and there are segments where we charge 11% also. Some balance transfers happens, but there is no extraordinary movement there.

Vivek: Sir, one related question is that the moratorium in the home loan segment is it like more self-employed or employed? Or is there any characteristic that emerges out of that segment?

Nirmal Jain: Yes. So you are right. More self-employed people relatively have taken moratorium more as compared to salaried people and although the self-employed percentage in total AUM has gone down to 42%, and some salaried people also have taken moratorium. But relatively, it is slightly higher in self-employed.

Vivek: Sir, one other question, which I have is the last question, is that are you going to be defocusing a little on your SME business going forward? In terms of focusing more on the secured higher-yielding gold loan and microfinance loans and defocusing on the SME loan part? That is my last question.

Nirmal Jain: I am happy that you asked this. So we are not defocused. See, today, what has happened is that everybody is uncertain about nobody knows what businesses will face what kind of cash flow problems and then become fully normal. So we are committed to this segment from a longer-term perspective, but there are two things. In the short term, the disbursement should be slow because we are cautious and as of now, we are seeing much greater opportunity to expand gold loan followed by home loans in the affordable segment. But as things become normal, we want to do this business completely digitally, and that is what we are building our system and our back-end processes. But given that we have gold loan branches, and in the nearby area, we have great opportunity to do this business where in a smaller ticket, Rs. 5 lakhs to Rs. 10 lakhs, we can get 18%, 19% yield and your incremental operating costs may not be significant because you use your network. So it is a great business from a longer-term perspective. Next three to six months, we may not do much till we are very clear on the economy and the environment.

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

Abhiram Iyer: First question that I had was on the number of employees. If you see that this is reduced by around 700 employees over the last quarter. So is this drop more permanent or is this more of a reaction to the lockdown, and how much of these would be in the collections department?

Nirmal Jain: 700 people comprises of all kind of people. But Collection Department people, I do not think we have reduced much. So what happens in our normal attrition itself is 3%-4% in the quarter, but what we have done is that we are not hiring more and I do not think we have reduced the number of people in Collection Department. So that remains more or less intact. But as we digitize, I mean there are some redundancies that happen in various departments, but this is normal. So even if you see our operating cost, including manpower, has gone down by Rs. 55 Crores in this quarter, and we are targeting Rs. 200 Crores of cost savings in this year without impacting our capacity to lend, but this has been achieved without reducing manpower significantly. So the senior level people have taken a salary cut and that is how you see Rs. 17 Crores reduction in the total manpower cost and 3%-4% is a normal attrition in the quarter. Only thing is that we have not replaced them.

Abhiram Iyer: Thank you.

Moderator: Thank you. The next question is from the line of Prasheel Shah from Cap Grow Capital. Please go ahead.

Prasheel Shah: Sir, the moratorium book has, more or less, halved. So could you share if how many of your borrowers would have paid the entire or all the installments for the past three months?

Nirmal Jain: In terms of those who have not paid three installments, they come as our GNPA. So if they wait for 30 days, then we will qualify them as loss nonperforming assets.

Prasheel Shah: No, I am saying from the moratorium book, so people who have exited the moratorium book, how many of those guys would have paid all their installments? How many would have paid partially?

Nirmal Jain: People opting out of moratorium are there, but there is not very significant number. I do not have the data, but I can check that out. I do not have the data at this point in time.

Prasheel Shah: All right and on Slide 17 and 18, so you said, slide 18 was consolidated and Slide 17 was standalone. What is the difference between the 2 when it comes to the outflow?

Nirmal Jain: Slide 17 is consolidated and Slide 18 is also consolidated. Slide 18 is done in the format of the ALM 2 what we submit to RBI. But when we submit to RBI, we submit for 3 entities separately. So Slide 18 is based on ALM format, ALM 2 what goes to RBI is based on that. So they have given some guidelines on how to prepare the asset liability mismatch. So there, what they say that you take a static balance sheet as if you are not going to disburse anymore and we are going to recover only the standard loans and not anything else or other recoveries if are beyond 5 years. That is how you are to prepare that. You are going to take only fixed deposit which are encumbrance-free, which are freely encashable and then basically, you would take care of all your operating cost and operating current liabilities also. So that is how Slide 18 is done. Slide 17 is nothing but what is our obligation, month after month what we have to pay to the banks or any other lender and based on that, what is the cash we have in hand at this point in time. So in Slide 17, we do not take any other current liabilities like rent, electricity or salaries and at the same time, we also do not take any cash flow which we will receive from, not even standard assets.

Prasheel Shah: Okay and then coming back to the moratorium part, so you said that home loans 76% collection efficiency was there in month of June, right?

Nirmal Jain: Yes. You are right.

Prasheel Shah: So if the collection efficiency Sir is that 76%, does include people in moratorium or does that not include people in moratorium?

Nirmal Jain: No, that is all the people, including moratorium and non-moratorium. So what is not received in mostly moratorium people.

Prasheel Shah: Thank you. That is it.

Moderator: Thank you. The next question is from the line of Lakshmi Iyer from Smartkarma Network. Please go ahead.

Lakshmi Iyer: When I compare with your previous presentation, I think that your investments have reduced by about Rs. 500 Crores. What have you sold?

Nirmal Jain: So we had government securities of around Rs. 500 Crores which we sold off in this quarter. So in March quarter, that Rs. 700 Crores includes Rs. 500 Crores of GSEC what we are holding on our balance sheet, which we liquidated

Lakshmi Iyer: That is all. Thank you.

Moderator: Thank you. The next question is from the line of Pulkit Anand from Silverdale Capital. Please go ahead.

Pulkit Anand: So my question is about the write-offs, about Rs. 88 Crores you have written in the statement. Can you give a color on that?

Nirmal Jain: Yes. What happens when we do the accounting as per Ind-AS, the interest stripping is netted off from the provisions. So out of Rs. 107 Crores or whatever provision that we have, Rs. 18 Crores is the interest stripping part which gets knocked off when you see those reports, which are the results, which are as per Ind AS format submitted to exchange. In the presentation, we include this Rs. Rs. 18 Crores interest stripping in other income. This is interest strip on the assigned assets. But the only difference between other income and provisions in the results that we see that is sent out to exchanges in the format and the presentation that we have.

Pulkit Anand: Thank you. That is all my question.

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

Nirmal Jain: Thank you so much. I really appreciate your time, and stay safe and if you have any information requirement now, you can be in touch with Anup Varghese, who is the Investor Relations Manager. Thank you so much.

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