IIFL Finance Limited
(formerly IIFL Holdings Limited)

Consolidated Financial Results – Q2FY20

Conference Call Transcript
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Management
Mr. Nirmal Jain – Chairman, IIFL Finance Limited
Mr. R. Venkataraman – Managing Director, IIFL Finance Limited
Mr. Prabodh Agrawal – Chief Financial Officer, IIFL Finance Limited

Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance Limited Q2 FY20 Earnings Conference Call. As a reminder, all participants' 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 the operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

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

Prabodh Agrawal: Good afternoon everyone. On behalf of team IIFL, I thank all of you for joining us on this call. I am Prabodh Agrawal, CFO; accompanied by Nirmal Jain, our chairman. Sumit Bali, CEO-IIFL Finance is traveling.

I will now pass the mic to our chairman to comment on overview of the group's strategy and plans.

Nirmal Jain: As usual, normally I can start with just taking stock of the macro environment and the industry. As all of us are aware that there are a lot of uncertainties and the near-term imponderables are far too many and people are getting too concerned about it, but if you look at medium term or long term, then there is not only one but many glimmers of hope and optimism. Monsoon has been good by and large. Oil prices are low. India is becoming a very viable alternative to China as a manufacturing hub as well with lower taxes, and most importantly, the government is committed to make sure that they address the issues related to growth in the economy and liquidity. They took a very decisive measure on the corporate taxes and people are expecting that maybe individual consumers also need some sort of booster and incentives so that on the demand side also, there is a pull and the growth looks up.

Also, about NBFC and liquidity sector it is more than a year since the whole saga started with the IL&FS default. I think financial sectors will always have cyclical and structural adjustment and these kind of structural changes and to some extent maybe cleansing is required, but having said that, things are improving on the liquidity front. Things are improving on the sentiment and I will talk a little bit about our business so I can look at it from how IIFL plans a strategy and what the environment that we look at.

In terms of growth, as you are aware, in the last few quarters, we have made our strategy very clear that our focus is retail lending and digital delivery, and within retail, we are focusing on small-ticket loans and there are 4 core product categories that we focus on. Home loans where our average ticket size is just about Rs. 20 lakhs. Then, we have business loans where our average ticket size is just maybe less than Rs. 50 lakhs. Gold loan is just about Rs. 50,000, and then we have microfinance which is just about Rs. 20,000. These are all small-ticket retail loans and if you see our YOY growth in these categories of businesses, then home loan we had a 16% YOY growth, gold loan we have 38% YOY growth, microfinance on a small base but we are 87% YOY growth. So, we are pretty happy with our growth rates in all the core segments.

As far as business loans are concerned, everybody is aware when the economy slows down, there is a bit of stress in SME sector. We have been very cautious and in last quarter particularly, we tried to slow down this, as we were watchful and looking at the environment as well as quality of asset in this segment very carefully.

While we achieve our growth targets and we remain focused on growth, we are always very very careful about the quality of assets. You would have seen the slides, I will just speak a little about the underlying factors before we jump into Q&A. Business loan, as I said that the environment is more linked to the economic cycle, as everybody knows, that whether cyclically or structurally , but the economic growth as well as business environment has been a little subdued. I wouldn't say that it is very negative or bad or recessionary, but we are seeing a little bit of stress.

As far as microfinance is concerned, you will see a little spike in the non-performing assets but primarily because of Odisha cyclone, and if you look at the last few years, then the microfinance business always had these kind of aberrations. So, we had seen impact in Kerala and Tamil Nadu… but those recovered very quickly actually. Within 6 months, we generally see that things get back to normal. So, I wouldn't be overly concerned about it.

In home loans, the asset quality deterioration what you see on the loan book may not be exactly representative of how our actual quality of assets is because when we look at loan AUM for home loan, then the GNPA level has just gone up from 0.8% to 0.9% quarter over quarter, but the reported GNPA appears optically higher due to securitization/assignment.

Now, coming to the real estate and construction loans where many people are hyper paranoid about, I just want to say that on the whole, our portfolio is doing well and we are not into high-priced segment but even one exposure which we have written-down significantly – maybe Balaji will talk more about it later – there also, there has been a favorable judgment by Supreme Court today. Other than that, in one or two cases, they might not have paid their interest installment for 90 days and in the strict accounting terms, it becomes NPA, but I can only say that you really can't understand how the sector is doing with these one or two aberrations because what we look at is the quality of collateral, the space of execution, and the demand from the end users. So, overall, at least in the areas that we operate in, which are more affordable segments, which are suburbs of the larger cities or the smaller cities, things are not bad and they may slightly in fact be looking up.

Now, coming to our strategy, we said that we continue to expand. We have been in this business for long enough to understand that the medium- to long-term India story is intact and the NBFC sector has a great role to play and therefore, if you see in last quarter almost 200 branches went live. Those plans were chalked out a little earlier but now that we have reasonably large footprint and fair bit of expansion which was done in 1 year, we may pause or slowdown the branch growth till these branches become fairly productive, but from a long-term point of view, we think there is enough potential for growth and market is still not saturated. So, our growth strategies will continue, maybe one or two quarters it might be in a pause till we get the productivity level up but other than that, we remain committed to continue in a very steady and orderly manner growing on the 4 core product categories that we focus on.

We have done a lot of initiatives in technology and things that are moving. Insta Loan for business and Insta Loan for home, there, we are getting traction in the markets. The relative share of those digital initiatives is going up significantly.

In terms of retail focus if you see, 87% of our loan book is granular small -retail. And out of that, a significant part of it is priority sector eligible. Almost 60% of home loans , 50% of our business loans, and more than 90% of microfinance are priority sector eligible assets. That focus will continue.

Coming to liquidity, obviously everybody is concerned about funding by short-term commercial papers. That has become negligible. Rs. 25 crores in a total loan AUM of 35,000 crores. So, obviously, it has almost become zero as on September end. So, CPs will remain I think either a small part of liquidity that you see, maybe for IPO funding but other than that, we have more or less moved completely to long-term funding in terms of liability profile; so you don't have to really worry about asset liability mismatches in the shorter term. Also, in the last quarter alone, we raised Rs. 1700 crores of long-term resources, term loans, which is other than securitization. While we continue to securitize and sell down the assets, we have been able to also raise long-term resources to the tune of 1700 crores and used them to repay the contractual obligations of the short-term resources now we have brought down to almost zero.

Rate of interest has moved up a little bit, 16 basis points quarter over quarter and some 70 basis points YOY but I think in the next 2 quarters, I am very optimistic that we will see that rate of interest should also head southwards. We have about Rs. 2300 crores of liquid assets and undrawn credit lines which provides us sufficient buffer and cushion. If there is some crisis or some event, we are at least fully guarded for that.

Now, I will hand it over to Prabodh, our CFO, to take you through some details of our profit & loss account and balance sheet and then we will take questions.

Prabodh Agrawal: IIFL Finance net profit was Rs173 Cr in 2QFY20, up 8% YoY and down 4% QoQ, after adjusting for one time impact of reversal of deferred tax assets. Loan AuM grew 9% YoY and was flat QoQ at Rs35,007 Cr. Primary drivers of our AuM growth are small ticket home loans, which grew by 16% YoY, Gold loans, which grew by 38 %YoY and Micro-finance loans, which grew by 87%YoY. On the other hand, developer and construction finance book declined by 10%YoY and Capital Market loans declined by 70%YoY. IIFL Home Finance has been a significant player in PMAY-CLSS. Till date it has provided benefits to 33,000 customers and disbursed subsidies of nearly Rs.740 Cr.

Retail loans, including consumer loans and small business finance, constitute 87% of our loan book.

Another strong characteristic of our loan book is the large proportion of loans that are compliant with RBI’s priority sector lending norms. About 59% of our HL, 48% of Business loans and 93% of our microfinance loans are PSL compliant.

Now, let me just explain to you some features of the profit & loss account.

Our interest income comprises of gross interest earned on loan assets and spread earned on securitized/assigned assets. Since the share of these off-BS assets has gone up, this has resulted in 7%YoY and 6%QoQ decline in interest income. At the same time our interest expense has fallen by a sharper 12%YoY and 6%QoQ because the interest paid on off-BS assets is not reflected in our interest expense line.

The other income of Rs87.4cr comprises of interest strip i.e. upfront amortization of interest on assigned assets of Rs34cr, fees & commission income of Rs37cr, gain on fair value changes of investments of Rs3cr and other income of Rs13cr. These numbers are largely similar to the previous quarter except that in the last quarter we had a Rs16cr loss on fair value changes due to marked down in value of some bonds.

Operating expenses are up 12%YoY due to increase in the number of branches, employees and related overheads. The number of branches has increased by 32%YoY to 2,309 as we added new branches for our microfinance and gold businesses. The number of employees increased by 19%YoY to 18,523. The operating expenses declined 2%QoQ as we were able to cut down several discretionary expenses like marketing & advertisement and traveling expenses.

Loan-loss provision at Rs59.6cr was up 147%YoY and 77%QoQ as we raised provisions for SME, Gold, home and RE loans.

We wrote-down the value of deferred tax assets by Rs98cr in view of the reduction in corporate tax rate. This is a one-off impact on the P&L.

The OCI or other comprehensive income shows loss of Rs12.7cr. This mostly comprises of marked-to-market loss on our foreign exchange loans. As the foreign exchange loans are fully hedged, both principle and interest, this is just a notional loss, which will be eventually recovered and it is not an actual loss.

We raised term loans, ECB and NCDs of Rs1,723cr in 2Q. This includes Rs300c raised through on-lending route with banks and USD100m from Export Development Canada.

We completed securitization/assignment transactions amounting to Rs3,721cr in 2Q compared to Rs1,403cr in 2Q last year and Rs4,595cr in the previous quarter. We sold down both PSL and NPSL loans in five product categories including HL, LAP, SME, Gold and Micro-finance, to government and private banks.

We maintain a conservative approach to liquidity, keeping a margin of safety. Commercial paper outstanding was only Rs25cr in the quarter end, versus over Rs8,000cr a year back. Of late, banks are warming up to term loan proposals and few of our proposals with banks are in advanced stages. We also expect incremental refinance from the National Housing Bank. We had committed credit lines from banks and institutions of over Rs2,200cr as on 30th Sep.

Our average cost of borrowings rose by 16bps QoQ and 72bps YoY to 9.4% in 2Q. At the same time, we have been able to re-price our loans and protect our interest margins. Our NIM was at 8.11%.

Consolidated GNPAs and NNPAs stood at 2.51% and 1.51% of loans respectively. The NPA ratios appear higher primarily because the loan book has declined 3% QoQ and 22%YoY due to portfolio sell-downs. GNPA at AuM level was 2.13% and NNPA was 1.39%. GNPA at AuM level for home loans was at 0.9% versus 0.8% in the previous quarter. Provision coverage, under IndAS norms, on stage 3 assets stood at 94.2%.

Return on assets for 2QFY20 was at 2.3% and return on equity at 15.5%, excluding impact of one-off items. Our Tier-I CAR stands at 18.2% and total CAR at 21.9%.

With this, we will now open the floor for Q&A.

Moderator: Ladies and gentlemen, we will now begin with the question & answer session. The first question is from the line of Anitha Rangan from HSBC Asset Management. Please go ahead.

Anitha Rangan: I just wanted to understand how you look at post this event of one of the securitized papers actually defaulting. How are you seeing the securitized market going forward?

Nirmal Jain: This is an interesting development, but I think we have to wait for the high court judgment on this. I think they have reserved it for judgment. But we don't see much of an impact, maybe securitized…. The bank probably will need some NOCs or may be more careful about the cover and the assets are separated carefully and communicated. The problem is that you are taking bank loan and then there are some underlying receivables and there are certain receivables which you are securitizing and selling it down. So, one has to separate the two and make sure that there is no intermingling or confusion there. I think it is still a new development and we have to watch how high court pronounces judgment on this.

Anitha Rangan: I am just trying to understand how much would be your PSL and non-PSL breakup of the overall securitization book, can you tell us?

Nirmal Jain: We securitize both PSL and non-PSL almost. So, if you look at our 87% of retail book, that is more or less securitizable. I don't have precise breakup, but I guess that it is similar to what our book is actually. Mix of what we are securitizing will not be very different from what we originate.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Prabodh, you gave the breakup of the interest income. Maybe if you can just repeat that for us?

Prabodh Agrawal: That interest income comprises of 2 elements. One is the gross interest earned on loan assets and the second is the interest spread earned on securitized assigned assets. When I securitize more and more, what is added to my top line is only the spread, not the full amount of interest, and therefore, there has been a fall in the interest income.

Nischint Chawathe: This is on the securitization part?

Prabodh Agrawal: No, on the total interest income line.

Nischint Chawathe: You would have booked upfront, right?

Nirmal Jain: Nischint, what happens that supposing we have Rs. 100 of securitized assets on Rs. 100 of on balance sheet loan and say our lending rate is 15%, maybe securitized at 10%. So, on the Rs. 100 of on balance sheet, our interest income will be Rs. 15, but for Rs. 100 of securitized, the interest income we will have only Rs. 5 which is the difference.

Nischint Chawathe: But I am just saying that there are 2 things, right? One is assignment and the other is securitization. Our understanding is that in case of securitization, you will keep on booking that Rs. 5 every month but when it comes to assignment, you will book the entire income upfront.

Nirmal Jain: That is correct. That comes in the interest strip but many times, gold loan assets are so short term that difference is not much.

Nischint Chawathe: You were giving the numbers on the gross spread and the interest strip.

Prabodh Agarwal: No, interest strip is not part of interest income. That is part of other income. In this quarter, we have booked interest strip which is part of other income of 33 crores.

Nischint Chawathe: So, breakup of 1083 works out as?

Prabodh Agrawal: No, 1083 we have not broken it up. 1083 comprises of both the interest on the loan assets and spread on the securitized assets.

Nirmal Jain: The amount breakup is not there, maybe you can send it later or put it up.

Prabodh Agrawal: Yes, that breakup we don't have.

Nischint Chawathe: Then, other income?

Prabodh Agrawal: Other income is 87.4 crores and that includes 33 crores of interest strip, it includes fee & commission income of 37 crores, net gain on fair value changes of around 3 crores, and other income of 13 crores.

Nischint Chawathe: And maybe if you can just give it for the previous quarter as well, 1st quarter?

Prabodh Agrawal: First quarter, interest strip was 32 crores; fee & commission income was 34 crores; the net gain on fair value changes, there was a loss of 16 crores; and other income was 19 crores making a total of 69 crores.

Nischint Chawathe: And the assignment income that you book upfront comes in which line item?

Prabodh Agrawal: That is the interest strip, that's other income.

Nischint Chawathe: That is the assignment income that you book upfront, is it?

Prabodh Agrawal: Yes.

Nirmal Jain: That is 33 or 34 crores out of 89, right?

Prabodh Agrawal: Yes.

Nischint Chawathe: That is the upfront income?

Prabodh Agrawal: That's right.

Nischint Chawathe: How do you reconcile the loan loss provision number of 59 crores that you have in the presentation with the number in the press release?

Prabodh Agrawal: The loan loss provision that has risen by 77% Q-on-Q and 147% YOY, that 59 crores. That 59 crores comprises of additional provisions that we have taken on our home loan portfolio, our gold loan portfolio, SME, and real estate.

Nischint Chawathe: But if I look at the return on the exchanges, what it says is that impairment of financial instruments is 128 crores. It's actually your gain that you have shown of 128 crores.

Prabodh Agrawal: Because when we write-off some assets, then there is a release of ECL. So, there is a release of ECL and there is a corresponding amount which is debited in for write-off. Actually, that shows the release amount but the net amount which will hit our P&L is 59 crores.

Nischint Chawathe: Okay, this is the actual provisioning cost for the period.

Prabodh Agrawal: Correct.

Nischint Chawathe: When you show your margins, what do you really show? Do you kind of take the benefit of the excess interest spread or is it like the pure interest income minus expenses?

Nirmal Jain: You will provide for the expenses over a period of time. So, you can't pay the entire thing.

Nischint Chawathe: What I am trying to say is that if I look at slide #7 and you have the margin number. In that margin, there are two ways to think about it. One is, I can take the interest income, I can take the spread of the securitized book, and on the denominator, I can take the books on balance sheet and off balance sheet. Or the other alternative is, I can just take interest on loans and divided by the balance sheet loans to calculate the NIM.

Prabodh Agrawal: Nischint, this NIM will include the spread on the loan assets and it will also include the spread on the securitized assets but it will not include the interest strip.

So, it is basically all means we are talking about loan assets and as per Ind-AS definition, the loan assets will include securitized assets.

Nirmal Jain: So, the interest strip is also not part of the interest income.

Nischint Chawathe: Because that you anyway book separately under others.

Prabodh Agrawal: Correct.

Moderator: The next question is from the line of Sivaumar from Unifi Capital. Please go ahead.

Sivakumar: The question is with regard to the developer finance. We see a spike in the GNPA of this particular segment, 2.9 to 4.8, and in absolute terms, the number has increased from around 140 crores to 225 crores. Can you give some color on the number of assets which are giving the stress and what is the outlook going forward and how are you dealing with this stress?

Nirmal Jain: As I said earlier that there are a couple of loans that they missed the 90-day deadline for the payment of interest and then they on the 91st day they become GNPA but as I said, with the collateral, execution is okay. They might have missed 1 quarter but there is nothing to worry about from a business point of view in terms of the quality of collateral or our ability to recover the full amount. There is addition of a couple of cases as they couldn't pay. One of them actually paid 18 days later. This is basically as per the accounting that we have.

Sivakumar: So, you are fairly confident that this 225 number should come down for the next quarter?

Nirmal Jain: Good that you asked this. In fact, many of our projects, we see that quite a few of them will go on stream in 6 to 9 months. Not only this, but even the loan book, I think we have plans to bring it down significantly in the next 6 to 9 months. So, as when a project becomes eligible for bank finance or whatever, we are also encouraging, and we are working with our borrowers that they can basically take funding from other institutions which works out win-win because they also get a lower rate. So, as projects move into that phase, we will actively work on that. Not only that the GNPA, but even the book actually in the next 6 to 12 months will shrink significantly.

Sivakumar: Any numbers you can share, sir, as to how fast this shrinking can happen?

Nirmal Jain: Balaji heads the real estate business. He will answer your question.

Balaji Raghavan: Just to add to what Mr. Jain said is that the way projects are going downstream and the sort of execution is going on and the sales also having picked up in a lot of these segments, the combination of banks coming in as well as the natural rundown, we see at least about 40% to 50% of the book reducing over the next about 6 to 12 months.

Sivakumar: 30% to 50% of the book will be shrunk over the next 12 months you said, right?

Balaji Raghavan: Yes, in about 6 to 12 months because of the trend in the cash flows and because of payouts which are happening from the sales and all that which is a combination of natural rundowns as well as some of the banks showing now interest and now that a lot of these projects have maybe completed 60% to 65% and so on. So, therefore, we clearly see a 40% to 50% reducing or shrinking in this book over the next about, I would say, 6 to 12 months.

Sivakumar: My next question is with regard to the loan book targets. We see a certain amount of sluggishness in the growth even in the home loan segment which is supposed to be your key focus area. Going forward, what are the loan growth rates you are working with for FY20 and beyond?

Nirmal Jain: You are right. Home loan actually slowed down last quarter but if you look at the trend in this quarter, it has picked up quite well. It will remain 35% at least in next 1 year. With the home loan, when we have approved projects for financing, we will be more careful because if the construction has slowed down, then many times, instalments also slowdown from the customers. And when the environment wasn't fluid in terms of the liquidity and everything else, things slowed down. But I can only say that from October after seeing trends, I think it will pick up very quickly.

So, home loan growth was slow last quarter, but we are expecting good pickup in this quarter and next quarter.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Investment. Please go ahead.

Vivek Ramakrishnan: I had a couple of questions. In terms of the mix of assets under management in home loans, we see an increasing proportion of salaried loans. While there is an uptick in NPA which we notice, does it mean in the future, the underwriting standards have become tighter and you are going to have better asset quality?

Nirmal Jain: You are right absolutely. If you see last 1 year, we have increased the salaried proportion significantly and that impact we will see after time lag, but we see that quality of assets will improve, GNPA should fall as we go along and there will be larger dominance of salaried home loans. The market has become less competitive in a way because in the affordable housing loan segment that we operate in, some of the larger players have stopped disbursing and therefore, we have an opportunity to change the mix and still maintain the growth and margin.

Vivek Ramakrishnan: The second part of it is, now the RBI guidelines have changed to allow PSL loans. So, it will hopefully allow you to keep more loans on book rather than sell it down but in terms of home loans typically the worse in terms of ALM matching, would you feel that more of the home loans will be sold down in the future compared to, let's say, your gold or microfinance which are all relatively short tender loans. So, when liquidity comes back, would we see a shift in sell-down pattern as well?

Nirmal Jain: In terms of the asset-liability mismatch, one very interesting thing is that onward lending the new scheme that RBI has introduced, there banks are lending for home loans for 7-8 years. Typically, banks used to lend only for 3 years and in some cases for 5 years. But in the scheme where the bank loan is considered as priority sector for bank, even they are encouraged to basically lend for longer term, so for almost the behavioral tenure of the underlying assets like home loans. That, basically will be good from asset-liability matching point of view.

Secondly, also, home loans get refinanced by NHB. I think the pattern or the mix of assets will remain the same as the liquidity comes back. Maybe gold loan assignment may come down because what happens with these kind of assignment and securitization is that they get prepaid very quickly. So, there is lot of cash movement both ways. You securitize and then you see maybe a significant part of your portfolio has liquidated in 3 months, you pay the money back to the bank and you wrote it over. If the liquidity is easy, then we will rather reduce the gold loan portfolio to be securitized.

Vivek Ramakrishnan: I just have one more question. In terms of the cost to income, you have been investing in technology as well as branch expansion which is I guess necessary especially in a business like microfinance because you want geographical diversity, but you are also selling down your portfolio. So, is the cost to income going to hit adversely at some point of time in the future or are you now through with all your expansion and you are going to keep a steady state. You mentioned that in the initial speech. Could you just guide on the cost as well please?

Nirmal Jain: We have paused our expansion. So, last quarter on QOQ basis, you will see there is a small 2% decline despite 199 branches going live. These 199 branches were set up in the quarter before in terms of branch infrastructure, furniture, get people trained. I wouldn't say that we will stop branch expansion, but we have paused it and will be slow in expanding at least for the next few quarters until we make sure that at least 90% of our branches are profitable. As we mentioned in the last quarter also that we are pausing our expansion for 2-3 quarters at least.

When we are pausing, that doesn't mean that there will be no branches but there will be very few branches set up. Some branches that we have already identified, or some branches will be shifted but there won't be any significant expansion.

Moderator: The next question is from the line of Arti Jayram from Edelweiss. Please go ahead.

Arti Jayram: I just had a couple of questions. One, with respect to securitization, I see that as of now, of the total assets under management, around 28.8% is assigned assets. How do you see that proportion changing over the next 6 months. Secondly, you mentioned also that there is a possibility of you getting the home loans refinanced from NHB. How much flexibility would you have over there?

Nirmal Jain: I think the mix will not change significantly. NHB refinance will come but on a total portfolio of 35,000 crores, almost Rs. 20,000 crores is housing finance company's portfolio.

Prabodh Agrawal: Currently we have 1445 crores of refinance from NHB and we have an application of around 750 crores.

Arti Jayram: Sir, with respect to the first question that how do you see the proportion of assigned assets over the next 6 months as a percentage of your total assets under management? Because I think that portion has increased substantially obviously given the external environment also.

Nirmal Jain: It will remain at these levels. It might taper off a little bit but there won't be a significant change. So, our assigned assets and securitized assets will remain about one-third of the book.

Moderator: We will move on to the next question that is from the line of Kush Sonigara from Mahindra Mutual Fund. Please go ahead.

Kush Sonigara: If you can just help me understand what percentage of this developer finance book would be under moratorium now?

Balaji Raghavan: We have a fairly, I would say, decent book in the sense that this business has been going on now and on the balance sheet for the last about almost 10 years now. If you look at it, since we have, I think slowed down on origination over the last about 12 months or so which means that roughly I would say the moratorium book would…. And moratorium is generally only for principle but however, the moratorium certainly would have come down. If you ask me an exact number right now, I would not have it offhand but in my estimate, it probably given the slowdown in origination, would not be more than about a 3rd of it. I think roughly would be that number.

Kush Sonigara: So, I can assume 25% to 35% roughly.

Balaji Raghavan: Exactly, I would assume that. It wouldn't be more than that given the slowdown in the origination.

Kush Sonigara: Secondly, with regard to the government's partial credit enhancement scheme, have we taken any sanction with regard to this?

Prabodh Agrawal: We have got a sanction of close to 900 crores on the partial guarantee scheme out of which we executed about 550 crores in the last quarter.

Kush Sonigara: Is this genuinely adding some value? Just if you can give a sense..

Nirmal Jain: Actually, it is not making a significant difference to be very honest. And we really aren't very keen on sort of taking too much of it because I do know the quality of assets what we have and the track record. So, it doesn't really make too much of sense for us.

Prabodh Agrawal: It is just that banks are keen to do that and therefore, they encourage, and because of that, some deals are happening because they are keen to show that some first-loss guarantee loans they have given. So it is another way of securitization which we would have done anyway otherwise, but we are doing it under this window.

Moderator: The next question is from the line of Manikya Saiteja, an individual investor. Please go ahead.

Manikya Saiteja: I would like to know about these co-lending scheme partnerships if we are working on it.

Nirmal Jain: Co-lending also, we are working on it. We have already started work with 2 large banks but there are several issues in terms of workflow, technology integration, and we are also tracking with the other industry players. So, it hasn't really taken off in a big way.

Manikya Saiteja: Which products are you actually discussing?

Nirmal Jain: We are discussing on gold loan, home loan as well as the SME loan.

Manikya Saiteja: Can we see any of those partnerships stabilizing in the next quarter or so?

Nirmal Jain: Maybe next quarter or maybe next 6 months, I think. The banks have their own technology, their own system, and their own priorities. They are moving slowly. Many people have signed up, they made announcement, but the assets are very small what they have moved into this. It may take some time when the banks and NBFCs understand each other's credit processes, get comfortable with that, and in an environment like this, banks are also very skeptical and although they are forced to do all these things, but they aren't really wholeheartedly moving forward although it is a win-win ultimately. I think it may take some time. Maybe it will take about a year also but let us see how it goes.

But another thing is that in its onward lending, what happens from NBFCs' point of view and banks' point of view is more convenient to do on-lending instead of co-lending because for on-lending they will give you a certain amount of loan and say that "okay, you lend it to priority sector" but the problem with co-lending is that every loan originated has to go into their system, the money has come from their system, and it has to be basically credit approved by them. Imagine supposedly I am doing a Rs. 50,000 co-lending with some bank, maybe SBI or ICICI Bank, their credit officer has to upload, my credit officer has to upload, they have to do data entry because the systems don't talk to each other. So, it is a little cumbersome.

But we were the first player to get the onward lending. The on-lending is simpler thing where what they are saying is that you lend to NBFCs, and if their loans are less than Rs. 20 lakh loan, then this becomes a priority sector for bank itself. I think that will take off much better. There, that's why we are seeing many more proposals in pipeline.

I think if it is off your balance sheet, your capital is still used but is a very convenient liquidity mechanism.

Manikya Saiteja: Regarding this, one more question. On the balance sheet front, our gearing ratios are kind of pretty high. Do you have any particular target in mind to maintain or is it opportunities based?

Nirmal Jain: Our capital adequacy now is 22%.

Prabodh Agrawal: Our gearing if you look at, which is debt-to-equity is 5 times at consol level and that is comfortable. It used to be high. Because of lot of asset sell-down, the gearing has come down. It used to be around 7. So, we would be comfortable taking it up to say 6 or 6.5.

Nirmal Jain: I will just clarify one thing that more than 50% of our book or half the book sits in HFC. So, in housing financing companies, historically actually the capital adequacy ratio is lower and typically if you see the industry as a whole, you will see NBFC gearing at 5 to 6 times but housing finance gearing at 8 to 10 times. So, what we have is the weighted average or a mix of it.

Manikya Saiteja: The second one will be regarding the cost-to-income ratio. Where do you see this ratio stabilizing in say once if you actually pause down these branch expansions.

Nirmal Jain: Actually, the ratio is moving around 50%, so maybe has moved up from 51 to 53. It again depends on the mix of the business that we have but it should come down significantly in terms of the next few years. I don't want to make too much of forward-looking statement but as we stabilize our expansion and get scale; the cross-sell again is a big focus where we haven't really tapped the full potential of our customer base; all these things put together, it will come down by quite a few percentage points in the next 1 to 2 years.

Manikya Saiteja: Can we expect somewhere around 40?

Nirmal Jain: That might be the trajectory for 3 years.

Manikya Saiteja: How many of our branches are still yet to break even and what it the typical timeline and typical time taken for our branches to be able to break even?

Nirmal Jain: Branches break even between 1 to 3 years. Broadly you can say that almost about 500-600 branches that we had set up in last 1 year, they may be not breaking even and making some small loss. That is the broad mix.

Manikya Saiteja: There is a recent CRISIL report on the number of originators that are going up these days from 70 to more than 100. Are you finding any ground level competition intensifying?

Nirmal Jain: Actually not, because as I said, at least in the home loan segment, the competition has become significantly lesser. Number of players is not important. Your ability to lend is also a function of your capital. There are many small starters and players coming. Many of them now, in the last 1 year of liquidity squeeze, have become a sort of…. they have suspended their lending. So, I don't think there is a problem of competition at this point in time, maybe a problem of confidence or people are a little concerned about environment and they are going slow but competition is okay.

Manikya Saiteja: But going forward once all these co-origination and all these co-lending and all kick in, at that point of time, do you see the competition threat intensifying?

Nirmal Jain: All these things banks will do only with established players. That's an advantage that we have. It is very difficult to imagine that any bank will go and start co-origination or taking over assets of a new player. They are a little skeptical about it like someone we have a 7-8 year track record. So, whatever assets we have given, they are realized. As I said, our losses have been less than what CRISIL would have estimated and factored in the price. So, it is the track record and the confidence that builds up over a period of time. And banks will do, at least to my understanding, these kind of arrangements only with players who are established, and their track record is there before they sign up and start this.

Bank is taking risk on their balance sheet at the end of the day and they will be more careful there.

Manikya Saiteja: Coming to our digital lending front, I believe our app-based lending is actually merged into the business loans. Am I right?

Nirmal Jain: Yes, it is merged with business loans, it is become assisted. So, what happens typically the concept of this is that every employee of ours has a small tablet. He carries it and fills up in front of the customer and helps doing it on an instant basis. In India, the customer psyche, as you know, is unlike western world where we have driver, maid, servant, everything. So, people want somebody else to do it. The pure DIY model still will take some time, I guess.

Manikya Saiteja: Are we doing any personal loans on the app itself which is completely digital without any assistance?

Nirmal Jain: Yes, personal loans is completely cross-sell and is digital but still somebody can call up and take assistance in terms of…. or if somebody has not filled up the documents carefully, then we can call up. So, everything that we say DIY is assisted DIY.

Manikya Saiteja: Next one will be regarding our digital partnerships. There are many companies that are coming up with their own credit scoring and experimenting with these NBFCs. Are we having any that kind of partnerships? Are we working on partnering?

Nirmal Jain: We have our own data. We have got about 40 lakh customers and the database. I am always a little skeptical about the new players because at the end of the day, your best IPR in this thing is your own customer database and their credit behavior which is proprietary which you are not going to really share fully with anybody else. Unless you have that, you can't really build a model and say that, that will work and give better credit scrore because what you are doing on a surrogate data or on the data which is from the bureau will never be foolproof, but if I look at our earlier history and I look at that, that gives me lot more confidence and better analytics.

Manikya Saiteja: What is the number of loans that we dispatched last month and what is our total….

Nirmal Jain: Last quarter, we added 3 lakh new-to-the-firm customers.

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

Nirmal Jain: Thank you everybody and if you have any more questions, you can always be in touch with our Investor Relations – Pooja Kashyap.

Happy Diwali to all of you and your families, have a great festive season. Thank you so much.