"IIFL Finance Limited
Q3 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance Limited Q3 FY2023 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you, and over to you.

Kapish Jain: Hi! Good afternoon everybody. On behalf of IIFL Finance I thank all of you for joining us on this call. I am Kapish Jain, the Chief Financial Officer of IIFL Finance Limited.

On this call today I am accompanied by Mr. Nirmal Jain – Managing Director, IIFL Finance Limited, Mr. Monu Ratra – CEO, IIFL Home Finance; Mr. N. Venkatesh – CEO, IIFL Samasta Finance.

I will hand over now the proceedings to Mr. Nirmal Jain to comment on the economy and the group's overall strategy including performance for this quarter. Over to you, sir.

Nirmal Jain: Thank you Kapish, and a warm welcome to everybody. In terms of economy and macro environment, I think we know that the environment is turbulent, but as far as Indian economy is concerned, our underlying factors still are positive. While all of us have noticed that the consumer demand had a slowdown last quarter, maybe a quarter before there was a bit of a pent-up effect of post COVID demand, but as far as demand for credit is concerned, it remains robust. Most of the segments of credit basically continue to see a strong double-digit growth for the whole economy and nation as a whole. Interest rates have increased significantly. In-fact RBI repo has gone up by 225 basis points, but most of it has not been transmitted because the longer tenure loans what we already had are at a contractual rate. Even at the incremental borrowing we are able to negotiate better given our track record and the way we have handled the crisis in last five years. So, the cost of fund has gone up marginally, and what we also passed on to our customer is a marginal impact. The repo rate reflects in our tenure loan of three to five years.

Having said this, I do not want to comment on the geopolitical or the market volatility, but underlying economy remain strong whether it grows by 6.5% that maybe better off debate, but the demand for credit is growing and unless interest rates go up significantly from here, we see that the outlook will remain positive and very optimistic on that front. Whatever interest rate hikes have happened till now; I think our customer segments have been able to absorb to that effect.

Now I will just briefly comment on our core businesses, and I will hand it over to Kapish for more detailed deep dive into the financial numbers, and then we will take Q&A.

So, we have four core businesses as you are aware of. In gold loan, there has been intense competition because a number of new NBFC players who have just jumped in, and also many banks and particularly the smaller banks have become very aggressive. What they do is kind of undercutting of the price where they try and set up branches nearer the people and offer to the same customers at a low rate and sometimes these rates are below the cost of fund, in the hope that probably they will be able to take the rate increase later. What we are doing and what we have been doing in last few quarter is that rather than react to this short-term strategy or approach, we track our customers and we make sure that even if they go for a rates which are not affordable by us, we track them and whenever the competition they try to take interest rate hikes in a manner which is not straight forward, we try and approach those customers again. So what we have seen is that up till November month were not good for our gold loans and there was a de-growth, but December we rebounded strongly, and we ended the quarter with 3% growth q-o-q and y-o-y growth remains fairly positive above 20% for most of our core products, and then many competition now they are understanding and some new fintech were not able to raise capital, that undercutting price is not a long term strategy, and also our brand is positioned on what we say “Seedhi Baat”, that we try to be transparent even if we lose business in short-term we do not resort to knee jerk reaction or approaches where your reduce the rate and then later try to do something else.

Home loan again we are moving more granular, our ticket size is falling, and in fact the subsidy received that is what probably would have depressed the growth a little bit because subsidy get adjusted in the loan amount of the customer, and to that extent cost come down. But here again probably we would like to see faster growth. The growth has not been as strong as we would have liked it to be in q-o-q, primarily because we are moving to a smaller loan. So the number of loans that we are processing is going up more significantly, and the ticket size is falling and more and more business is coming from what we call SPOC locations or smaller places compared to Hub locations where competition is intensifying more, but I think as our network has grown up significantly in the last nine months and as we get into smaller towns, and we get market share there, I think the growth will become stronger.

Microfinance has seen very strong growth, in fact 55% y-o-y, but in industry many good players have grown at that pace and the demand is strong. The environment has become far more positive with the very pragmatic reforms of the RBI, a number of reforms including removing the price cap and income based assessments where the loan amount can be higher. Even our interest rate has gone up, but we should note that we are taking the interest rate increase only on the new loans and do not reset the old loan interest rates and therefore the portfolio rates will grow at a slower pace, but over a period of time we will catch up. And, microfinance industry has turned around very well, we are very well diversified geographically from a strategy point of view.

In business loan we have a loan against property segment that has grown, that again is intensively competitive with NBFC and banks, but what we are trying to do is focus on small tickets property loans, which is like the ticket size typically can be less than Rs.10 lakhs incrementally, so that is the sweet spot that we are trying to target. These are the home loan customers where they already have a loan, the loan has been repaid then they take a new loan which is classified as the loan against property primarily against self-occupied residential property or smaller premises. But we have separated the digital loan this time because digital loan is a loan where the entire end-to-end processing is digital. Our strategy is to partner with big players, who have got digital footfall. For digital loans, if you look at most of the Fintech that they do not make profit despite very high NIM primarily because customer acquisition cost is very high. What we want to do is that we do not want to incur customer acquisition cost ourselves by aggressive digital marketing, but we have tied up with number of players and many bigger relationships are also in pipeline where the testing is going on and the launch will happen very soon. So, we get the lead from these players and where we share the NIM or the fee in a pre-agreed manner. Now the digital loan can be personal loan and business loan both. So in India for many small proprietary, it is difficult to classify whether it is business or personal because many of these self-employed people also use their personal account for business purposes as well. So the digital loan is loan where we are going to get, I mean, where actually branches may refer, but primarily happens in the website and the leads come from partners. As these are unsecured loans, so we want to keep it separate, so that loan against property which is like a mortgage can be tracked separately. So, with this, I will hand it over to Kapish to take you through the financial numbers and then, we will come back for Q&A. Thank you.

Kapish Jain: Thanks a lot Nirmal. Just to tell you about the financial numbers and the performance, IIFL Finance’s profit after tax before considering the non-controlling interest for the quarter was at highest ever at Rs. 423 Crores which is up by 37% on a y-o-y basis. It is up by 7% on a q-o-q basis same time last year. This, ladies and gentlemen is largely driven by the AUM growth and also some bit of expansion which happened on our NIM part as well. We recorded pre-provision operating profit of around Rs.772.7 Crores during this quarter which was up by 26% on a y-o-y basis and 12% on q-o-q. As Nirmal mentioned our loan AUM has grown by about 24% y-o-y and 5% sequential quarters to Rs. 57,941 Crores. If I further dissect this and focus on our core products, which is largely the retail products that we hold, that segment grew by 26% on a y-o-y basis and 5% q-o-q to Rs. 54,689 Crores, and the core product segment now comprises of 95% of our total AUM. The non-core AUM primarily consist of the constructions and the real estate financing, which further shrank by 7% on a y-o-y basis, in line with the strategy that we have shared with the market earlier. As I mentioned 95% of our loans are retail in nature and 67% of our retail loans are PSL compliant, which exclude gold loan, but having said that gold loans still qualify for a zero listing for the bank and therefore bank even though they are non PSL are keen to buy the assets from us. Lastly the retail and the PSL loans are of significant value in the current environment where we can sell down and with the kind of asset performance that we have shown to this market, banks have always been keen to buy this from us and we have ensured that we have a proper management and oversee on these assets from a collection, recovery and risk management perspective. In-line with a capital optimizing strategy, 39% of our AUM is either assigned, securitized or under co-lending and bulk of it is now under assignment and co-lending, and going forward we will see a larger share of co-lending emerging in this number. The assigned loan book currently stands at Rs. 15,939 up by around 67% from last year. Besides this there are securitized assets of Rs. 1,049 which is going down, and the co-lending book is a key highlight here, which we actually mentioned is from zero almost gone to Rs. 5,716 Crores in this particular quarter end. It has been way possible by new relationship that we have added on the co-lending piece. We have added UCO Bank and Punjab and Sind Bank for co-lending of our Gold loan and Home loan including the MSME LAP respectively.

So during the last nine months to support our growth, we have added 669 branches and 4,318 employees across all our businesses, which on our result shows a higher cost to income, but with the monetization happening of the newer branches in the resources and people, we strongly believe that we should be able to bring this number down and this has actually has also helped as our overall disbursement going up by around 44% on a y-oy basis. Our annualized return on equity for the quarter is at around 17.9% on a lower gearing because we had the ADIA infusion of Rs. 2,200 Crores which came in the previous quarter which will bring our gearing down and therefore has some impact on the overall ROE the dilution on the capital position and the ROA stays strong and stable at around 3.4%. Our capital adequacy for the standalone entity stands at around 21.5% which is well about the minimum threshold of around 15%, which is clearly suggesting that we are able to grow ourselves without impacting hugely on our capital position through the on-book off-book success model that we hold.

Our average cost of borrowing marginally increased by around 10 basis points and around 16 basis points q-o-q to around 8.79% and this is despite what Nirmal mentioned 225 basis hike in the repo rates and close to 100 basis point hike in the MCLR maybe 110. The gross NPA is I think closer to our endeavor or the guidance that we have given of around 2%. It currently stands at 2.08 and the net NPA similarly stands at around 1.06, significantly down from a 2.42 and 2.22 respectively, which we gave and which we reported in the previous quarter. With the implementation of the ECL model under IND AS, the provision coverage ratio on the NPA today stands at 154%. Earnings per share for the quarter and not annualized stands at around Rs.10 per share, which is up 22% y-o-y and the book value of per share now stands at Rs. 225.6 which is up by 41% y-o-y.

A brief update on our liquidity position - during the quarter we raised around 4,340 Crores of term loan, bonds and refinance all long-term money which helps in our ALM very strongly. Additionally, we did around Rs. 3,700 Crores of direct assignments of retail loans to banks. Our cash and cash equivalent and committed credit lines from banks and institutions are of around Rs. 8,562 were available at the end of the quarter, adequate to meet not only for the near-term liabilities but also to fund the growth momentum, and I must mention that this liability and liquidity position is also helping us in negotiating our borrowing without showing any desperation when we go and search for new liabilities from our bankers. We have a positive ALM thereby and inflows over and above the exceeding outflows across all buckets as you could see through the presentation that we have. The net to debt equity, the netting off with the liquidity position thus is down to 3.2x compared to 4.2x and the total liquidity for the group as I mentioned earlier is around Rs. 8,562 Crores. Loans classified as digital loans are part of the unsecured business loans with an active customer count of around Rs. 3 lakhs. As Nirmal mentioned on the digital front, we continue to focus on digitization and analytics to improve customer experience and enable a convenient one stop shop of purchase and investor need. Our gold loan at home initiative which started approximately two years ago, also saw significant traction with disbursements y-o-y increasing by around 90% to Rs. 260 Crores for this quarter.

With this, I come to an end, and we are open to Q&A. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: Good afternoon. Thank you for the opportunity. Just wanted to understand the gold finance business a bit in detail. What kind of tonnage do we have here and what kind of LTVs are we running, average LTVs on the portfolio, and if you can also speak on the competitive intensity, there has been some amount of balance transfers happening to banks. So, if you could speak on that. Thank you, sir.

Nirmal Jain: So, our onboarding loan to value is ~70%. In terms of industry, so since last year it became very competitive, there are a few new players and they try to do balance transfer, so this is a practice that happens in this industry. What we have to do is that as far as we are concerned we make sure that money is coming from customers account because you do not want to violate even for a smaller amount the money laundering and the KYC process what it is and if we get our full money obviously customer has a right to take his gold back But the competitor that is trying to do balance transfer has to put money in customer's account without the gold and then normally what they do is that the people with accompany the customer, get the money transferred to customer's account, customer will transfer to our account, and then basically we release the gold. This as far as outbound balance transfer is concerned. Inbound we do not encourage normally, if customer is very old and known, but other than that I think customer have to come on their own.

Shubhranshu Mishra: And tonnage will you come back to me, sir.

Nirmal Jain: 55.4 tons.

Shubhranshu Mishra: 55.4 tons, and how much this has grown on a y-o-y basis, on a q-o-q.

Nirmal Jain: I will get you those numbers before the end of the call.

Shubhranshu Mishra: If I can squeeze in just one last question. If you can split the AUM pool less than Rs. 1 lakhs ticket size, Rs. 1 to 3 lakhs and more than Rs. 3 lakhs as a proportion of AUM it will be very helpful. Thank you.

Nirmal Jain: We will get you these numbers by the end of the call.

Shubhranshu Mishra: Thank you so much, sir. Best of luck.

Moderator: Thank you. Next question is from the line of Saptarshee Chatterjee from Centrum PMS. Please go ahead.

Saptarshee Chatterjee: Good afternoon sir. Thank you for the opportunity. My first question is on the digital loans. Now if I see digital loans, the GNPA percentage has reduced y-o-y or q-o-q, but there has been de-growth in disbursement as well as AUM. Can you please explain what is happening in this side?

Nirmal Jain: Asset quality has improved that is what you are saying right.

Saptarshee Chatterjee: So asset quality has been better, but the AUM as well as disbursement both has reduced. So it should have been more aggressive on this part right?

Nirmal Jain: Yes, it is a very valid point. So in digital loan what has happened is that there is RBI circular in September which basically laid down certain guidelines for partner sourcing and particularly I think from Kreditbee and Byju's the incremental loans have been insignificant and the earlier books are typically short tenure, so they run down very quickly. So organic growth is there in that loan book and is very strong, maybe what you are seeing is a q-o-q number I mean that is where the September RBI circular had an impact. Now in terms of asset quality and all those things, so there was some old book which has been written off or which has been closed so that could be one reason. A year ago, the book was quite small. So although you do not see growth in this quarter but in the previous two quarters there has been good growth. But this quarter again, the continuing partners or where we are fully compliant with the RBI's new guideline, that business is growing but there are two large partnerships that actually has shrunk in this quarter.

Saptarshee Chatterjee: Understood. Secondly as a data point like in nine months FY2023 I see it at around close to Rs. 658 Crores kind of a provisions that you have made in the P&L. Can you please give the breakup of how much is coming from like write-off, how much is from standard asset provisions that way?

Nirmal Jain: I will get these numbers, because I think these are numbers of quarterly. So for nine months I will just get you those numbers before the end of the call.

So for the previous question of Shubhranshu the gold loan tonnage has grown by 20% y-o-y.

Saptarshee Chatterjee: Sir, lastly if you can give like if I see your investment book, investment book has grown by around Rs. 1,000 Crores q-o-q. So, what are the general breakup of the investment book and how much investment, like how much investments we are doing on the IIFL Wealth side on their front.

Nirmal Jain: No, this data is not correct actually, I do not think they have grown by q-o-q with a Rs. 1,000 Crores and maybe including mutual funds or the liquid assets in this. Where you got this Rs. 1,000 Crores number from.

Saptarshee Chatterjee: If I see your balance sheet from quarter two to quarter three and both including like cash, and as well as short and long-term investments.

Nirmal Jain: In short-term investments, the liquid mutual fund whatever liquid we have. So that will keep varying because sometimes we will put in liquid mutual fund, sometimes we will put FD. But other than that hardly there is no change in the investment.

Saptarshee Chatterjee: So, as on date like we have around Rs. 3,000 Crores kind of an investment so like what is the exposure towards IIFL Wealth Funds or real estate funds.

Nirmal Jain: So, no, IIFL Wealth Funds we have nothing much, but the real estate kind of SSG that is ~ Rs.1050 Crores is there in that fund in total.

Saptarshee Chatterjee: Understood sir, thank you. I will come again in the queue. Thank you so much.

Moderator: Thank you. Next question is from the line of Sharaj from Laburnum Capital. Please go ahead.

Sharaj: Thanks for the opportunity. My question was again on the write-off part. The MFI book we have taken around Rs.100 Crores of provision this quarter, and again there has apparently been some write-offs because the PCR also gone up. So can you quantify this amount?

Nirmal Jain: There is Rs.123 Crores write-off in MFI book and primarily because there are some of the old loans. Although we continue our effort to recover but above 180 days or the older loans that we have written-off, and there was provision last time also, so there is a provision which is there last time and also additional provision being created on the book which is growing faster.

Sharaj: If I see the provision, it has actually come down q-o-q the overall provisions on the MFI side.

Nirmal Jain: So, the provision released related to the old loans is taking care of the provisions for the new loans. This I think the provision has created then in last few quarters and against that we have written-off the loan book. So some of the older loans they get fully provided for given the provision policy that we have in MFI and out of that some of these things have got written-off.

Sharaj: Can you quantify the amount, that the write-off we take.

Nirmal Jain: Yes, I will just give one second.

Sharaj: Have we seen incremental slippages because if I look at the stage III again it come down by around Rs. 35 Crores only while the provision we have adjusted is around Rs.100 Crores. So do we continue to see some slippages there.

Nirmal Jain: Yes, MFI we have taken Rs.105 Crores of total net provision. So the write-off plus new provision minus old provision is Rs.105 Crores.

Sharaj: I wanted the write-off figure actually, sir.

Nirmal Jain: The write-off figure is Rs.123 Crores.

Sharaj: Sir, are we continuing to see the incremental slippages here or is it broadly now provided for.

Nirmal Jain: No, incremental business after November 2021 is doing very well. The older ones where we had a moratorium and restructure cases, that is all we have been trying to sort out so I think the problem is just getting sorted out so older loans whatever we can recover which has seen good recovery, or wherever we can close by one-time settlement we are doing that. So what we had done is that we have divided the book in two parts the older book where during the COVID period all the restructuring and moratorium was given, we are handing the book separately, and wherever cases are getting close we just write it off primarily against provision and just get over with it.

Sharaj: On the credit cost overall we guide for a 150 to 200 bps for the year, so how should we look at it now and going forward.

Nirmal Jain: So I think it will remain in that range, but as the book grows probably no so if you see our book is around Rs. 40,000 Crores give and take. So, if you see that 200 bps on annual basis then every quarter we see around Rs.200 Crores of provision.

Sharaj: So, we should stay in that range for the whole year I think so.

Nirmal Jain: Yes, we will stay in that range, it is slightly on the higher side of that range primarily because still micro finance things are getting sorted out, but I think in terms of guidance or expectation I think we will be in that range.

Sharaj: Sir, on the gold loan side, you mentioned that the growth is not as per the expectations. But how should we look at it going ahead. I mean, given the competition which has come in both on gold and home loans, how should we look at the growth here.

Nirmal Jain: Just your question on the investment what you are seeing is the investment done by HFC in CP instruments which is just short-term increments as we have received money from ADIA in the last quarter so that money is not fully deployed, and the money is invested in short-term instruments.

Coming back to your question on gold loan and home loan. So gold loan in last ten years we have seen these kinds of things happening in spurts where there are some new players come and they think that they can take the market by undercutting and after some time they also realize that this is a game in which nobody wins. What I think about gold loan that what we are seeing this quarter that gold prices have been formed and gold loan should do well now. Whatever we have seen is the worst is over at least in terms of the cut short competition and the impact of that on the price and if you do not want to compromise or you want to be in that game then obviously you will loose the growth, but I think that is over and we should see much better time for gold loan. Coming to home loan again the segment, Monu maybe can take this question. I mean, the question is that how do you see our gold loan competition of the environment.

Monu Ratra: Yes, we have seen that with the interest rate cycle going up and some competition also beefing up, but if you would see that in the last two years we have been expanding ourselves pretty deep in the geographies in the tier two and tier three towns. So we see that as our distribution also increases, if at all, there is any slight slackening in the hub or metro areas, we should be able to offset it by a distribution which we have in tier two, tier three towns, and our ability to price comparatively with co-lending also in place, I think we are good to see the growth in home loan to continue.

Nirmal Jain: I think the competition is intensifying in mostly larger cities. So let me say top 20 cities or top 30 cities, but our strategy is to expand beyond where still competition has not reached or is expensive maybe because the business is not so much as to cover up for many new players and we can ride on the gold loan bank network as well.

Monu Ratra: Yes, absolutely, So the distribution and reaching out tier two, three and four markets is there and this is reflective in our current quarter performance as well.

Sharaj: But here the problem as you mentioned is like basically the ticket size is much smaller. So the overall delta on the book will be lower or do you expect even the smaller ticket size we will be able to generate enough volume to give the 20% growth.

Monu Ratra: Absolutely so I think to answer this if you will see that if you look at the HFC numbers there has been an increase in distribution and the operating cost also there, but at the same time we are able to have a very consistent growth plan. For example, whatever we grew in the last complete year we have already done that in the first nine months itself. So we are pretty confident of continuing this growth because of the efficiency of the technology which we use as well and obviously we get better spread there than what we get in the urban areas. So, we should be pretty consistent for growing along with the profitability as well.

Nirmal Jain: So our ticket size has already come down quite a lot in last few quarters. So now this is the level at which we, this is the ticket size which is a sweet spot for us to operate so that damage to growth or the impact of growth has already been taken I think more or less. We are now at Rs. 13 lakhs of the ticket size so we have already gone into the smaller places.

Sharaj: One last question on the co-lending piece. So a lot of our growth has been coming, but with the deposit growth for the system slowing down, would we see a slowdown here I think the banks not wanting to extend the balance sheet for the co-lending business and trying to cater to their own customer. I mean, how do you look at it, co-lending will be affected as the deposit growth slows down for the system.

Nirmal Jain: I think it is very unlikely because today if you ask me the demand for co-lending is maybe 10 times what we can offer. So, what has happened is that in last so many years if you see PSU banks and many other banks PSU banks in particular, they have really not expanded the network while the economy and credit demand has grown much faster or they expanded much slower. So the demand is much much stronger and still the credit deposit ratio is still quite low if you see the PSU banks' balance sheet then they still have to catch up, but keep that aside for a moment say that the deposit environment really because very difficult so what is happening is that the CASA has moved to fixed deposit it is not that the money is not there on the system, and secondly if you look at as a company even if we have to take the loan from our own books it will not be very difficult for us. Supposing for theoretically I do not think that there is a possibility at least in the foreseeable future that we do not have to do co-lending we can very well keep the loans in our book and grow like any other NBFC for that matter.

Sharaj: Will we have enough bandwidth for that.

Nirmal Jain: The bandwidth we are managing the loans as of our own, you are talking about equity maybe.

Sharaj: Yes, liability probably, yes.

Nirmal Jain: That is not a problem today actually. So in terms of liquidity and equity so like our capital adequacy in housing finance almost 49% and our gearing is 3.2x so we have enough room to grow on our own should there be a need for that. But at this point in time, we see that this is tremendous latent demand and in fact it takes time to build up your systems, people, train people and network, but the demand is very, very strong. So what is happening today the banks also got 8%-9% with the cost of fund being 3%-4% they get retail credit where the losses are minimal and they need these for the PSL and for the balance sheet. So it is a win-win relation. In fact, many banks that we are talking to we are talking about long-term arrangement where they also want to have a commitment that every quarter we will deliver so much of co-lending or direct assignment. So, the negotiations are on that front actually.

Sharaj: Ok. Thank you, sir I will come back in queue.

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

Deepak Poddar: Thank you very much, sir, for the opportunity and many congratulations for the good set of numbers. I just wanted to understand on the credit cost you mentioned that it will remain in that range. I mean, I just wanted to clarify what is that range you are talking about is it on percentage basis or on an absolute basis you are talking about.

Nirmal Jain: No, percentage basis, so on book loan around 200 basis points in a year that is what we should try and look at.

Deepak Poddar: Yes, so that is what we have been maintaining right, but I think currently it is around 350 basis points right as on second and third quarter.

Nirmal Jain: Not really, because if you see second and third quarter, we are in the range of Rs.200 Crores per quarter right.

Deepak Poddar: Yes, so total is about Rs.330 Crores right.

Nirmal Jain: No, this quarter is Rs. 213 Crores and last quarter was Rs.195 Crores.

Deepak Poddar: So you would look to maintain that 200 basis point kind of credit cost right even in FY2024 if we talk about.

Nirmal Jain: Yes, so there will be some benefit from old things getting sorted out, but we want to be conservative because we have a digital loan which are unsecured and there are a few small things growing so we need to keep. So I think that is what probably one can factor in that as the expected cost.

Deepak Poddar: Understood, fair enough. In terms of growth how do we see the growth going forward I mean I think currently we are at about 25% right.

Nirmal Jain: I think 25% is the growth that we should be able to maintain for next few years.

Deepak Poddar: So, 25% CAGR for next two, three years is a likely scenario.

Nirmal Jain: That is what we are targeting here.

Deepak Poddar: Lastly on the cost to income ratio, is there any improvement or efficiency we are looking at in the cost to income.

Nirmal Jain: So, there was slight improvement from 43% in H1FY23 to 42% currently and we will see improvement over next few quarters maybe. Our target internally is to bring it down to 35% which will take a few quarters a 1% or 2% point every quarter can bring it down then we will reach there in next five to six quarters.

Deepak Poddar: But ROE 3.5% is what we have been maintaining right.

Nirmal Jain: Yes, ROA is around 3.5%. ROE has come down little bit in this quarter because ADIA equity infusion has added to the net worth and that basically so that depresses ROE little bit, but over medium-term I think our ROE should be 20% plus.

Deepak Poddar: That's it from my side, sir. Thank you. All the best.

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

Arun: Congratulations on the good set of numbers. Just wanted to check on the capital adequacy part. Currently the capital adequacy is at 21.5% for the standalone entity. What would be the capital adequacy that you would be comfortable working with and at what level you would look to raise fresh equity to support both the standalone business and also to support the capital requirements of the subsidiaries.

Nirmal Jain: You are saying at what level will we raise equity?

Arun: Yes.

Nirmal Jain: I think the way we have structured our business that we should not be desperate, or we should not need equity for a very long time. Having said that when we raise equity also depends on the market valuation, but it is unlikely the near future. So I think our business model is little different. Once market and investors have understood it very well and when we believe that we are giving at a fair value this is the time you look at it or if there is an acquisition opportunity or something we can look at it but at this point in time we do not see any need to do this thing.

Arun: Ok. Is there any covenant with the lenders that the capital adequacy should not be less than 20% or 18%?

Nirmal Jain: Yes, so I think microfinance has been one notch below in terms of credit rating, but we will negotiate because we don't need that kind of covenant given our track record. But yes some lenders and more microfinance have a covenant of 18% capital adequacy.

So, coming to one question about nine months that our profit and loss account is Rs.657 Crores for loan losses and provision and in terms of total write-off we have done the Rs. 736 so on the net basis provision release is Rs.79 Crores.

Arun: Also, ADIA has invested Rs.2000 Crores in HFC similarly are we looking for external investors in the MFI subsidiary also, sir.

Nirmal Jain: At some point in time yes, but right now we are putting Rs.200 Crores from the parent in the company as is growing and we have to keep capital adequacy properly so we have Rs.200 Crores of equity investment has happened from the parent in microfinance but at some point in time we had to look at a strategic or a financial investor in microfinance, you know what has happened in microfinance, this industry has passed through turbulent and roller coaster kind of a time period. But after RBI reforms and the recovering economy the industry is doing well and some of the leading microfinance companies, we are seeing that their valuations are improved. So at an appropriate time what we can do is over next five years I mean just not immediate future is that HFC microfinance then they become larger then they can be separately listed just like we did it in our parent company. We earlier had three businesses Wealth, Finance and Securities all of them became large enough we split them. The way we do the demerger there is no equity dilution required because the holding company shareholders get shares of subsidiary companies and the holding company ceases to exist, but that is something which is I mean not in the immediate future but at some time later this can happen.

Arun: Got it, sir, that is it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Jyoti from Arihant Capital. Please go ahead.

Jyoti Khatri: Thank you and congratulations on a great set of numbers. Couple of queries. The last quarter you had mentioned that there was some high-cost borrowing amounting to $400 million that is likely to be paid off, so has that happened in this quarter.

Nirmal Jain: No $270 million is outstanding and that is due for payment in April 2023 and which we are fully prepared because our cash is much more than that. So we are talking about roughly Rs.2000 Crores or there about and there also if you get an opportunity we can prepay some or buy the bonds in the market and close that faster. But at this point in time $270 million so that we are fully prepared to take.

Jyoti Khatri: So nothing has come in this quarter right.

Nirmal Jain: No. Now I think the residual term is so short that it will be difficult to prepay it will get just two, three months so everybody is wait and just close it.

Jyoti Khatri: So broadly how do you think margins will get shape up in this fiscal given the fact that the current levels do you think you can sustain this current high level of margins going forward.

Nirmal Jain: Yes, I think our strategy is to go granular and that is how we can maintain the margin so the smaller tickets we do that impact in the operating cost and the network required but that basically allows you to have higher margin.

Jyoti Khatri: On the gold loans that you described, but if you can just give more details about how do you see growth happening on that side because if you see the other NBFCs who have the gold loan NBFCs, their AUM growth is not happening. What makes you say that growth will be maintained at this level?

Nirmal Jain: Actually in 2020 and 2021 we expanded our gold loan branch network very aggressively and as you would have seen if you may be tracking our company for a few years that has resulted in significant increase in operating cost because the branch network has almost done about 40%-50%. So that is what is helping us to maintain some growth. But logically I think if the industry revives we should grow faster than what we have been growing given the expansion that we did. So I think other players if you are talking about if they had not grown the network maybe as aggressively then obviously the same store sales what you can call them have been under pressure in last few quarters. It is too early in this quarter, but I think probably you will see some recovery in this quarter.

Jyoti Khatri: On the home loan do you see the competition is relatively less in smaller ticket size loans like less than Rs. 20 lakhs whereas for higher ticket size we are seeing the competition and plus while we slow down the growth across the players with the bank and for the NBFCs as well. So how do you think that.

Nirmal Jain: For home loan you are right in a smaller ticket size the competitive intensity is slightly lesser. Although there are some new NBFCs, but they are very small and regional. So when we look at the whole country then relatively speaking the small ticket size which is less than Rs.20 lakhs, or even Rs.10-12 lakhs even the segment that we are now catering to has lesser intensity of competition. Again, we should understand it is not easy for anybody to become a competitor in this segment because it requires a network of branches and people who can do say the title verification, valuation in smaller places and which is the operating cost. When we have small ticket when we take longer to breakeven so competition is less and that is why banks are also very comfortable doing co-lending and even long-term co-lending partnership with us.

Jyoti Khatri: Ok. Sir these digital loans are nothing but business loans right.

Nirmal Jain: Business loan and personal loan as I explained in the beginning of this call, that many times when there is a mom-and-pop shop, or a one man professional or self-employed person where even business is done from his personal account. So that is one and secondly, we have tied up with Zest Money, where we are getting certain personal loans from that relationship as well. So these are personal and business loans both. Mostly the salaried employees i.e. the formal sector will not come to us because they will get it at a much cheaper rate, from big banks like SBI or HDFC but the people who come to us are self-employed some of them maybe salaried but in informal sector where the documents like pay slip, PF are not fool proof that way.

Jyoti Khatri: One last question on the branch expansion side, what can we expect for the next fiscal

Nirmal Jain: We have slowed down the branch expansion, but expansion will continue. We have a team that does the data analysis and keeps tracking opportunity areas and we set up branches. I think branch expansions at normal pace will continue forever but the aggressive spurt where we did like 40%-50% expansion in 18 months that kind of thing will not happen but 15%, 20% or 10%-15% expansion every year will continue.

Jyoti Khatri: Thank you sir.

Moderator: Thank you. Next question is from the line of Sharaj from Laburnum Capital. Please go ahead.

Sharaj: Sir on the NIMs is there any one-offs we are seeing on due to assignment income or something or these our normalized NIMs.

Nirmal Jain: No these are normal NIMs.

Sharaj: On the home loan side if you could just give some light on the customer segment which is more self-employed. So I understand we are going more to the tier three towns probably now. So what is the segment of customer we are dealing with and what is our edge here.

Monu Ratra: Typically, our customer about 65% of our customers are salaried people and 35% belong to the self-employed segment. The TG or the target group which we are looking at is people with a household income of below Rs, 50,000 in the urban areas and in the smaller towns it could be household income of less than Rs. 30,000-35,000. Typically, if you see these people would be in the blue collar jobs and usually these people could be working in private limited companies or even sometime with proprietorship as well. So this is the kind of a target group which is there. As Nirmal, mentioned earlier also we edge or the moat for us is about the distribution which we have set up for the past so many years and along with the NBFC network available of gold loan branches for us to reach and breakeven is much faster. The opportunity has always been here for everybody else for to make it a profitable business if you would look at our cost to income ratios also would be fairly better off than the industry affordable housing players. The reason for that is how we use technology to enable this and have a faster growth path as well. So I think the distribution understanding of the local policies, process and the technology has put together is a good moat to scale up this business further.

Sharaj: And the yields here would be around, what was the yields around 11%, 12% or higher.

Monu Ratra: Nearly 11% as you can see it of 10.9%.

Nirmal Jain: This has gone up in last one year.

Sharaj: Ok. Thank you so much sir, that was it.

Moderator: Thank you. Next question is from the line of Bhuvnesh Garg from Investec Capital. Please go ahead.

Bhuvnesh Garg: Thank you for the opportunity. My question is on gold loan. Just want to know, what would be the count of gold loan branches today and what is our target for branch expansion and overall AUM growth in gold loan for FY2024.

Nirmal Jain: Out of 3,965 branches, around 2,589 is gold loan branches.

Bhuvnesh Garg: And what is our target for FY2024 in terms of branch expansion and AUM.

Nirmal Jain: I think we set up more than 300 branches maybe we will reach 3,000 by FY2024. So our average principal outstanding per branch is about 7.1 Crores for Gold Loan which we will like to take it higher. So I think 20% to 25% growth is what we have probably target in most of all our core products.

Bhuvnesh Garg: Alright. Thank you.

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

Nischint Chawathe: Two questions from my side. First is on the gold loan branches just to clarify you do not need to take any regulatory permission for adding branches right.

Nirmal Jain: Now there is a bit of ambiguity on this but on the safe side we take regulatory approval. So we took approval we got approval for 1000 branches in 2020 we got another approval for 700 branches in 2021, out of which we would have set up 200 branches so we got approval for 400 to 500 more branches. We are taking approval, but it is vague whether we need approved or not. But I will give you background that earlier there was a circular on the gold loan industry came under pressure in 2013, 2014 saying that the gold loan companies if they expand their branch network beyond 1,000 branches they should take approval. Now whether we are a gold loan company or not is again a difficult question but on the overall portfolio we have less than 50% but if we take a look at standalone NBFC we maybe more than 50%. So to around the side of caution we go to RBI and take their approval and we actually present them the entire data of how we have gone into under penetrated market and what have been the track record of earlier approval and what have we done. So we have adequate approval for next one year.

Nischint Chawathe: Just for my understanding your branches are not exclusive gold loan branches right I mean what you have essentially is the IIFL branch and then you probably do gold or you can do multiple products on the branch so it is not exclusive gold loan branch that you have.

Nirmal Jain: So practically speaking if you look at our gold loan branch now it is 2589, our housing finance home loan is still about 370. So what has happened is that some of the gold loan branches will double up as the home loan also and many a times what happens that the home loan works in a hub and SPOC market like in Bombay we have about 100 gold loan branches but there are only 10 home loan branches. But what will happen is those 100 gold loan branches will feed the leads of home loan to those 10 home loan branches. So let's say we have a branch in Borivali so entire Andheri to Dahisar area will give those home loan leads to Borivali branch. So we leverage the branches to get the lead, but out of these 2589 branches almost 2200 branches will be actually be only gold.

Nischint Chawathe: Just one little bit clarification on numbers. Your cost of funding is going up by around I think sequentially 15 basis points and annually around 10 basis points so just trying to understand what is the secret sauce.

Nirmal Jain: I think it is a good question. So, one is that, we have a longer tenure loan and I think if you see the loans before 2018 were even more the interest rates are higher than what it is today. So what is happening is that sometimes when these gets repaid what we are getting now is even after this MCLR increase is still not too bad. The dollar loans which are at a very high rate I think we will be able to bring it down by 130 bps. Third thing is that in NHB refinance what we get because we are in affordable and really catering to the low income group, NHB has different schemes 5%, 6%, 8% depending on what kind of loans we are doing, so the refinancing is also at a competitive rate. Also given our track record we are able to negotiate with banks better, so the premium which we are paying on MCLR, now we are able to negotiate it to MCLR or sometimes even better than that. So it is a combination of everything.

Nischint Chawathe: Just to understand in IIFL Finance Standalone as against your weighted average cost of borrowing of 9% what would be your incremental cost last quarter.

Nirmal Jain: Incremental cost last quarter it is similar, it is 9%.

Nischint Chawathe: Perfect thank you those were my questions.

Moderator: Thank you. Next question is from the line of Navneet Bhaiya, individual investor. Please go ahead.

Navneet Bhaiya: Hi Sir, congrats for the good results. I have two questions. First your leverage profile of course has improved quite significantly after the ADIA money raise, so is there a timeline by which you are looking to revert back to the earlier leverage profile if you are looking to it. That is my first question and second is your standalone results across your total income PPOP there has been a dip sequentially as well as y-o-y. So, while you have mentioned some reasons on the gold loan competition etc., but if you can throw some more insights on that.

Nirmal Jain: So, one other component is a markdown in the value of investment which the valuations happened every quarter and that is why you see with the fair value gain is negative and so the standalone book basically comprises the old business loans, the construction finance and gold loan. Gold loan has been under competitive pressure and there is a bit of a markdown on the investment that we made, but those valuations happen every quarter so that is a quarterly movement.

Navneet Bhaiya: On the leverage bit sir, your leverage of course after the ADIA money raise is a lot more conservative.

Nirmal Jain: In last year I think we have a covered bond gain what was it, Kapish can you just tell.

Kapish Jain: See the last year we have some of the off-book assets sitting into a trust, which when they get closed there was a one-off profit which came up from Rs.202 Crores in the standalone financials of IIFL Finance. It did not affect the consolidated numbers but in the standalone number the aberration of Rs.202 Crores additional interest income came in.

Nirmal Jain: Which in consolidation it gets knocked off

Kapish Jain: So this resulted in the standalone numbers look low as compared to last year. That is one one-off impact, other is the impact that we talked about mark-to-market on the investment.

Navneet Bhaiya: The second question was on the leverage.

Nirmal Jain: So leverage I think we do not want to go back to the 5-6x. So from 3.2x I think we will be comfortable which we have discussed in the board to go up to 4x and we will try and contain. I mean that should be the level that we should try and not cross.

Navneet Bhaiya: By when would you look to sort of reach that level because that obviously means your ROE also perhaps would improve to that extent.

Nirmal Jain: I think given that incrementally we can do co-lending we can achieve that level in 12 to 18 months and stay there and as the business mix stabilizes at whatever level we want. So it could be 12 to 18 months' time by when we get the leverage back to that level.

Navneet Bhaiya: Understood sir, thank you so much.

Moderator: Thank you very much. The next question is from the line of Nikhil Agarwal from Tusk Investments. Please go ahead.

Nikhil Agarwal: My question is on the mix of the co-lending securities and on balance sheet book. So right now, we had 37% off-book balance sheet lending. So can you talk on the breakup of the off-book balance sheet lending and on-book balance sheet lending the different business that we have.

Nirmal Jain: So primarily gold loan, home loan, and LAP are off book, the construction finance will obviously completely whatever we have is on book and business loan also the digital loans are new which are on book. So in terms of if you really want to have the exact numbers then you can work out the numbers from the lower AUM and the assets on balance sheet difference which is there in the presentation, but the total assigned assets are Rs. 15,939 Crores and co-lending is Rs. 5,716 Crores. So, on book is Rs. 36,286 Crores and off book is around Rs. 21,655 Crores.

Nikhil Agarwal: And incrementally in the microfinance book are we doing more co-lending, any assignment is happening.

Nirmal Jain: Yes, so in microfinance also probably we will do more co-lending and assignments going forward. It requires some seasoning and I think going forward this also a great product to be partner with banks.

Kapish Jain: Just to give you a perspective in the microfinance the objective of capital optimization state we did around Rs. 1,550 Crores of assignment in Samasta this year compared to Rs.250 Crores that we did in the same time last year. So that is where we are building the similar arrangement for doing lot more assignments for this business.

Nirmal Jain: Last year we could have do much because of the COVID restructuring the entire business was in bit of a turbulent stage.

Nikhil Agarwal: This time microfinance growth has been 17% q-o-q which has been the major driver for the growth in the book. So how do you look at it?

Nirmal Jain: Last quarter is 17% but yes there is a bit of aberration actually I don't think that growth will continue but be a strong growth for next few more quarters. I mean whether 55% y-o-y and 17% q-o-q difficult to say and I mean if that level would not sustain forever but 25% to 35% is quite doable in this year and next year.

Moderator: Thank you. The next question is from the line of Aswin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

Aswin Balasubramanian: I just wanted to check into the capital on the standalone entity. So the tier one is 13.8% so up to what level of tier one would you be comfortable going with and also this is decline from about 18% last year. So any reason for the decline from 18% to 13.8% rate.

Nirmal Jain: No, actually the last year in the December quarter there were more assignments and the book has come down significantly. We have not done that in last quarter but probably March quarter is the quarter where most of these assignments happen. I think we would like to keep it around 13%, 13.5% is the level that I would like to maintain for tier one at least.

Aswin Balasubramanian: Okay thank you.

Moderator: Thank you. Next question is from the line of Jyoti Khatri from Arihant Capital. Please go ahead.

Jyoti Khatri: Sir any update from the asset quality standpoint on the CRE book.

Nirmal Jain: No I think in terms of CRE book asset quality continues to be what it has been. The CRE environment is improving if you see the demand for housing in the real estate sector in general is seeing good traction, so I think most of the projects things are taking on faster than historically what they have done.

Jyoti Khatri: If you can tell us what was the total income generated from off book in Q3 versus in Q2. The other income which is there that is purely coming from off book.

Nirmal Jain: Non-fund income that you see, Rs.530 Crores in Q3 and Rs.476.6 Crores in Q2, that is off book income.

Jyoti Khatri: Thanks.

Moderator: Thank you. The next question is from the line of Trupti Agrawal from White Oak Capital. Please go ahead.

Nirmal Jain: Also, just one point this time we had given an excel sheet which is like a data book which has got lot of these granular details that you are asking for you find those numbers given on excel sheet and the numbers on the excel sheet so that you compare or you can use and analyze on your own.

Trupti Agrawal: Thank you for this opportunity, sir. 2 quick questions please. Sir, what I just wanted to understand is that on the co-lending side, co-lending of home loan, I see a q-o-q decline in the disbursement from about Rs.818 Crores to Rs.643 Crores that is about a 20% decline so I just wanted to understand the reason for the same we are talking about very big opportunity in this space and couple of new tie-ups that we have done in this quarter so that is one.

Nirmal Jain: You see my adjusted ADIA only we are sitting on a huge cash and which we just earned 3%,-4% so although we have a relationship with the banks otherwise ideally, we should not do any co-lending till we utilize our cash and have a negative carry there but maybe Monu you have anything to say on this.

Monu Ratra: Yes, so this is one reason which is where as Nirmal mentioned and also we have been seeing that it also been now added a bit of our non HL book the loan against property also has got into co-lending as well. So if we put both together we are almost the same as last quarter but as Nirmal said, we have ample liquidity we are sitting on so we will better consume that first rather than having a negative carry.

Trupti Agrawal: Sure, so that we do say that now we are doing the LAP along with home loan both put together that the disbursement would be almost similar to it, is that what you mean.

Monu Ratra: Yes.

Trupti Agrawal: My second question is that just wanted to understand the reason for such a sharp increase in operating expenses in the home finance subsidiary both on a q-o-q and nine months' basis what really is the nature of these expenses.

Nirmal Jain: Monu you want to talk about HFC.

Monu Ratra: So if you will see that almost in the last one and a half years the count of headcount and including the branch network has also increased reasonably so we are in that once again in that investment phase and because as we are setting ourselves for bridge growth in the coming years so this investment has happened in last one, one and a half years. However, as you will see the, as we are going to tier two, tier three towns there is an increase in the operating cost. Similarly, the spreads have also improved because in those markets you can earn a better spread. So now the investment phase is evening out from here on we should be able to come back to our original operating ratios as we get these branches to be more productive.

Trupti Agrawal: So how many of home loan branches do we have.

Monu Ratra: Total about 349 branches.

Trupti Agrawal: I am sorry if I can just ask one last question which is in the business loans what exactly has seen the issue on the digital loan side.

Nirmal Jain: RBI came in with a circular which put down certain guidelines about partnering with Fintech in terms of FLDG credit the money is to go to the customer's account directly and not through the partners. So, the number of such conditions were put and that is what has impacted. So we have many partners in digital loan and particularly two partners which were fairly significant that is where the business has come down. I think it is a process change because like money going to customer through the partner and many such things we have just operational issues we try and sort it out in terms of underwriting we always have to do credit underwriting ourselves. So some of these partnership business will also come back it is just matter of time. I think this circular came sometime in late September 2022 and that is why you see last quarter there is an impact on couple of partner business.

Trupti Agrawal: Sure, got it. Thank you so much.

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

Kapish Jain: Thank you very much ladies and gentlemen for joining us on this call. I think it was a very detailed conversation and I hope we were able to address all your queries. The data book should also help you to get do further analysis for your convenience. If still anything further remains do come back to us at our investor relations email ID and we will be happy to address back to you. Thank you.

Nirmal Jain: Thank you so much. Have a good day ahead. Thank you.

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