“IIFL Finance Limited Q4 FY-23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the IIFL Finance Limited Earnings Conference Call.

We have with us on the call today Mr. Nirmal Jain – Managing Director, IIFL Finance Limited, Mr. Monu Ratra – CEO, IIFL Home Finance Limited, Mr. Venkatesh. N – CEO, IIFL Samasta Finance Limited and Mr. Kapish Jain – CFO, IIFL Finance Limited.

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

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

Kapish Jain: Thank you very much. Good afternoon, everybody. I hope you and your family is safe. Thanks for joining us on this call, Q4 Earnings Call for fiscal 2023.

I am Kapish, I am the CFO for IIFL Finance. On the call I am accompanied by Mr. Nirmal Jain – our Managing Director, Mr. Monu Ratra our CEO for IIFL Home Finance; Mr. N. Venkatesh – CEO for IIFL Samasta Finance.

I now hand over the mic to Nirmal Jain to comment on the economy and the group's overall strategy and plans. Over to you.

Nirmal Jain: Thank you Kapish. And welcome to the Analyst Call for the full year FY23.

So, to start with my views on the macroeconomy:

Today there are divergent views about India's macro economy and prospects primarily because there are concerns about high inflation in the US and Europe and the impending or kind of looming recession fear there and also the rural slowdown back home. But my personal view is that things are good in terms of macro stability, they are far better than ever before, because on one hand inflation seems to have peaked out and therefore, even interest rate seems to have peaked out and we saw that the last policy, last MPC basically paused the interest rate hike and this is backed by current account deficit coming off after peaking in September. And obviously, the oil imports at a lower price are helping us. So, foreign exchange reserves are in good shape and the currency is also stable relatively.

If monsoon is good, then the rural demand will come back. GDP growth maybe at 6.5 – 7%, the potential of India is much more but today's world, India is really in a sweet spot and on the whole, given the stable external environment, stable politics and the economy doing generally well and with inflation and interest peaked out, outlook for the economy, financial services as well as the greater market is positive and optimistic.

There are many concerns and fear, that many times people talk and ask questions about, the bank credit growing too fast, what is the potential for co-lending, or data becoming available to everybody, how will NBFC sector grow. So, I just wanted to put some numbers in perspective. So, banking sector credit is around Rs. 140 lakh crores today and out of which if you see mortgages, mortgages by itself is around Rs. 24 - 25 lakh crores. So, if you really look at our share in the overall mortgage, it is about 1%. Given our vast network of branches, obviously there's a huge potential to tap and for us to grow also. And for the mortgage by itself in India, the mortgage to GDP ratio is 11%, which is one of the lowest. So, obviously mortgage is grossly under penetrated. In the last quarter we have seen some slowdown in the affordable home loan demand, primarily because of interest rate increase, as well as the commodity price increase, where the cost and the prices have not come down to make up for the interest rate increase, but this is a temporary phenomenon. As we see the interest rates fall, the demand probably can accelerate again.

Overall, the mortgage industry did well, and the luxury segment actually grew much faster. But the affordable sector has tremendous long-term potential as I said, the penetration is just 11% of GDP, which is 60%, 70% in many developing countries, and has been above 100% in some developed countries like US. So, there's a long, long way to go.

Then if you look at MSME sector, the MSME credit by banking sector is about Rs. 35 - 40 lakh crore to manufacturing, another Rs. 35 - 40 lakh crores for services. So, together, it's Rs. 70 - 80 lakh crores. And still, everybody agrees from the government to banks to reserve bank that this credit in this sector is grossly under penetrated. So, again, there's a long, long way for this industry to grow. And the size of business that we have at this point in time is very, very insignificant compared to the potential. Even our gold loan and microfinance businesses primarily cater to MSME customers because they're all small businesses and for income generating activity.

Now, the question is whether the entire potential can be tapped by banks, or there's an opportunity or there's a niche in which we operate. So, in my view, and with what our experience has been for the last few years, that we have a network of branches and people, they cater to very small ticket loans, if you look at our ticket size in all loans - business loan, MSME, digital loan of Rs.3 to Rs.4 lakh, or Rs.13 to Rs.14 lakh for affordable home, and Rs.50,000 to Rs.60,000 for gold loan. So, there's a much bigger market above this, which banks still have to tap, and these are the customers which are difficult for banks to tap. Many a times, they require access to the customer near them. The loan branches that we set up are lean branches that will just cater to loan, so the cost structure is very competitive to bank, if they were to run a similar kind of loan mobilization system, it would be far more expensive for them.

Also in data, while the data is available for everybody, people still need to learn how to use data and the very large number of parameters that people use and the algorithm that works for this is continuously evolving. And obviously, we have invested in technology and we believe that we are the movers in using the new technology infrastructure of account aggregator, the transaction data, by way of alliances with large technology players as well as our own organic marketing for getting customers. So, the digital infrastructure, the digital investment that we have, the branches that we have, and people that we have, that basically gives us a moat, to continue to grow our business.

Since we expanded our network of branches and people in last two years very aggressively, we can now slow down this expansion. And still, we have enough capacity to sustain growth to meet our targeted growth of 25% in our loan AUM as well as of our income and bottom line. Last year has ended well, we have grown our profits and loan AUM in-line with our targets. One change that we have seen, what probably most of analysts and investors who are watching us would have seen, is that, in last couple of quarters, co-lending is increasing and obviously the relative share of direct assignment and securitization will come down to that extent. In terms of accounting, which we follow, IND-AS, in case of assignment we have to upfront the estimated value of what is already off the book. But in the case of co-lending, the excess interest accrues quarter-after-quarter. So, what we will see probably over the next few quarters is that the co-lending income, the excess interest or the difference of interest that we get will keep growing. The up fronting will keep reducing and basically, the impact on the whole, will be probably lesser and lesser as we go along.

Also in last quarter, as we have been seeing for last few quarters, the COVID impact now is over, our asset quality is back to the normal levels, even with applying or having implemented RBI's new circular of more stringent norms for income and asset quality, we are still at 1.8% in GNPA which is well below our target of 2%. And NNPA is a little above 1% and again our target is to keep it below 1%. Asset quality further can improve in the next few quarters. In terms of cost of funds, our margins have improved because there has been a systemic interest rate rise and obviously that allows us to increase the pricing of our product as well. Most of our products are small loans which are relatively where, it is not very difficult to pass on the interest rate hike, but our cost of fund has not gone up in proportion, primarily because our rating and credibility with the banks has improved. Our international credit rating also has been upgraded. Also, we have fully repaid now the dollar loan which was the MTM bonds we had issued in 2020 in aggregate about US$ 400 billion out of this US$ 130 million was prepaid before March and the remaining 270 has now been paid in April 23. With hedging and everything all included the cost was very high at around 11%. That should also help us in containing the increase in cost of fund which is the impact of interest rate increase across the system.

We try to provide as much information as possible in our presentation as well in call. So, many a times if people have some doubts or some questions or queries about the data or the changes in number, I'll really appreciate it they can raise this on this call, because I have seen some comments on social media, which is about digital loan. Now, digital loan is just about 4% of our portfolio and the numbers for Q3 and Q4 has change and the reason is as follows. It is not because of discontinued business, but there are some small portion of LAP which was digitally done, but we thought that there is a conflict in classification and we will take LAP as a primary classification. And therefore, you will see that the Q3 numbers of LAP, the LAP has relatively lesser GNPA as compared to unsecured digital loan. So, the Q3 number of LAP which was earlier 3.9% has gone down to 3.48% as some part of digital loan, which is digital LAP has moved to this. And correspondingly the digital loan GNPA, which are reported 3.34% for the last quarter have gone up to 4.18%. It is a small Rs. 600, 700 crore portfolio of LAP that is digitally done. Now we are classified it as LAP instead of digital loan. And there's nothing to get excited about the 3% to 4% of loan in terms of how we present the data.

We'll answer all your queries either by mail, or you can talk to our Investor Relations department or ask us questions on this call.

So, with this, I hand it over to Kapish to take us through the details of the financial numbers and then we will have a Q&A. Thank you.

Kapish Jain: Thank you very much Nirmal. So, first, I'll take you through the quarterly performance numbers followed by annual.

So, as mentioned by Nirmal for the quarter the consolidated loan AUM for the group moved up by around 26% y-o-y, and on a quarterly basis moved at around 12% closing at around Rs. 64,638 crores. And further dissecting the AUM growth into core products, gold loan AUM and home loan AUM grew by 28% and 23% y-o-y respectively. Micro finance has grown by about 59% in this year with improvements in the entire regulatory framework which came into the segment. Digital loan and loan against property grew by around 33%, 18% y-o-y respectively.

So, overall, the core loan portfolio grew by 29% to Rs. 61,502 crores and the non-core in-line with our strategy has further shrunk by around 11% y-o-y and 4% q-o-q. And this is something which will still continue to be muted. The core loan segment, now comprises 95% of the overall AUM, as a mix they have gone up by around 2.1% y-o-y and correspondingly the non-loan core AUM comprising of 4.9% has come down by 2.1% y-o-y.

So, in accordance with our capital optimizing strategy, 38% of our AUM is either assigned or under co-lending and the assigned loan outstanding stands at around Rs. 16,979 crores up 19% y-o-y and 7% q-o-q. Impressively, the co-lending book has increased to around Rs. 7,557 crores in FY23 up from Rs. 2,845 crores, a 166% jump and this is something which we have in arrangement with multiple banks and across all products, primarily gold and the home loan businesses.

During the quarter, we also added two new relationships in co-lending - IDBI Bank and Indian Overseas Bank for co-lending of gold and micro-LAP, respectively.

So, for the quarter our reported Profit after tax before minority, stands at around Rs. 458 crores up 43% y-o-y and 8% on a quarter-on-quarter basis. In this quarter, we also added, across all businesses, 300 branches, and around 1200 employees, which has led to a higher cost to income ratio of 43%. But going forward our strategy is to monetize our branches, make them more operational and more efficient, along with other cost savings initiative that we're working across the franchise which should enable us to report a far lower cost to income ratio, as we work towards it, this during this entire fiscal.

Our cost of borrowing increased by 38 basis points y-o-y compared to a 250-basis point repo high that you saw, and almost more than half of that has also been passed on through the MCLR hikes by the bank. And putting this in Q4, sequentially to around 8.93%, is the cost of borrowing. Gross NPA, as Nirmal mentioned, stands at around 1.84% down from 1.31% y-o-y and 0.24% q-o-q and net NPA is around 1.1%. The diluted earnings per share for the quarter standards at around Rs.10.8 up 28% on y-o-y and 9% q-o-q.

Just to briefly highlight, this enablement on the cost of borrowing was possible only by maintaining healthy liquidity. We continue to maintain healthy liquidity and the liquidity number stands at around Rs. 9,356 crores. During the quarter, through various sources retail and aggregate, we raised Rs. 5,880 crores, be it through term loans, bonds or refinance and we also did around Rs. 3,981 crores of direct assignments by selling retail loans to banks.

Our gold loan at home initiative which is really progressing fine saw significant traction during the year with disbursements more than Rs. 1000 crores in FY23 and then with an improvement in yield that business. We now have monthly run rate of over Rs. 100 crores, which consist of 3.5% of our total gold loan AUM.

With this, I will now discuss the annual performance for the year FY23, our consolidated PAT before minority was Rs. 1,608 crores up 35% and our pre-operating profit was Rs. 2,831 crores which has again shown an improvement of around 24% y-o-y. As I mentioned, 95% of our loan is retail, of which 67% of our retail loans (excluding gold loans which are not classified as PSL loans) are PSL compliant. The rest are largely gold loan which is again zero risk rate for the bank. More importantly, the retail and the PSL loans are of significant value in the current environment, which we can sell down with the kind of asset performance that we have demonstrated. We have a very good relationship with those clients from a business delivery and performance perspective as well.

Overall, on these assets, the collection recovery is something we entirely own from driving the whole servicing for the bank, while the risk on the credit is completely passed on as we sell these assets to them.

Our consolidated ROE for the year stands at around 19.9% at a lower gearing because of the ADIA infusion of Rs. 2,200 crore of primary capital that came in our subsidy company, IIFL Home Finance. And then we reported a ROA of around 3.3%.

Our capital adequacy stands at around 20.4% in the NBFC, and a very healthy 47.3% in the housing finance subsidiary as of 31st March. As you can see our CRAR is well above the minimum threshold which is needed. And with our off-balance sheet strategy and our internal accruals, we believe that we should only be able to improve with that, as we progress.

For the year, our average cost of borrowing increased by 30 basis point to 8.8% on an average basis. Our gross NPA, as I mentioned, stood at around 1.8%, which is a shade below the guidance that we gave around 2% earlier.

With the implementation of expected credit loss, our IndAS provision coverage on NPAs stands at around 1.67 times which is a specific provision and earning per share for the whole year is around Rs. 39.5 per share up 26% and the book value is around Rs. 231 which again moved up by about 40%. We have a very positive ALM whereby inflows cover or exceeds most of the expected outflows across all our buckets, and a net gearing stands at around 3.5 which is down from 4.2 in FY22.

The loans classified as digital loans are part of unsecured loan business with an active customer count of about 3.9 lakhs as on March 23. That's all I have, and we're happy to take more questions.

With this, I open the floor for Q&A, and we are happy to answer all questions that you have, or we will come back to you in case we miss something today.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anusha from Dalal & Broacha. Please go ahead.

Anusha: Going forward on FY24 outlook, on the credit growth side, how do you see it panning out and what will drive the growth, current fiscal we have seen MFI witnessing very strong growth and digital loans as well. So, broadly what will be the growth drivers in each of the segments and also if you can elaborate more on the margin side, you have so far well managed on the margin side. How do we see it panning out in FY24 because many NBFCs are facing the heat on the funding cost side, so what will be your outlook on that?

Nirmal Jain: Thank you Anusha and, one on the credit growth side, as I said that, we expanded our network quite significantly. And we have also invested in technology. So, our target or the goal is basically 25% credit growth. In terms of margin, we are prepared for some bit of upward pressure on the cost of funds. But hopefully, we should be able to mitigate by savings in cost to income as we slow down our expansion. And to put things in perspective, we would have set up almost 900-1000 branches last year, this number may be about 150, or 200 not more than that in FY24. Now, why 100, 150 or up to 200 is because of what we do in microfinance business in particular, that is the larger branches, we split them into two for better risk and operational control. And there may be certain strategic locations, which are very good. So, the number of new branches will be just about maybe around 15% of what it was last year. And therefore, cost to income ratios should mitigate the upward pressure on cost of funds. But still relative to our peers, we should be better off because we have paid off our high-cost dollar bonds and with our ratings and credibility being better, we should be able to negotiate better with the lenders.

Anusha: Okay. So, still on the spread side, how do we see that you'll be able to maintain FY23 level?

Nirmal Jain: Yes, we will be able to maintain the spread at FY23 levels. And for everybody, what we have done instead of net interest margin, we're given the net interest spread, which is the difference in percentage cost of borrowing and percentage portfolio yield. Because when you say net interest margin, it might include investment income, and the numerator and denominator they don't match. So, the spread that we have given in our presentation now is more relevant and more indicative of what is our actual margin is, we should be able to maintain that next year also.

Anusha: Okay. And how much will the benefit of this high-cost bond that you redeemed?

Nirmal Jain: Kapish will give you some data on that.

Kapish Jain: So, as Nirmal mentioned, this was around US$ 400 million of high-cost bond borrowing that we had, some bit of it we paid last year itself. And the remaining we paid in April of this year. It was a double-digit number close to around 11% and we also recently, as we said in our press release, we borrowed another 100 million, where the blended cost is around 9.2%.

Nirmal Jain: So, we save about 180 basis points on this, what we have repaid.

Anusha: Okay. On the branch expansion side, you said 150 to 200 that is for the total branches or it's only for MFI?

Nirmal Jain: No, total branches. So, maybe gold, home loan and MFI all put together. So, last year also all put together we had about 900 branches.

Anusha: So, 150, 200 that should be the run rate that we might expect over the next one or two years?

Nirmal Jain: Yes, this year for sure. And then, let's see how the opportunity and environmental outlook is for the next year. So, our annual plan for this year we want to slow down, next year also I don't think we need to accelerate because we need to make the existing branches productive. And then, once we get the cost to income ratio to a more comfortable level, then we can embark upon the next phase. And that will also depend on the economic and the business environment at that point in time.

Anusha: Okay. Sir lastly on the asset quality side, what is the credit cost internally that you are working on, because you had mentioned that it would be closer to around 200 basis points odd so any change in that number, or how are you looking at it?

Nirmal Jain: So, maybe this quarter probably, we are at a run rate of 220 basis point but going ahead we should be at the target rate of 200 or lower.

Moderator: Thank you. The next question is from the line of Renish from ICICI Securities. Please go ahead.

Renish: So, two questions, so one is on the insight, likely impact on the gold loan yields if the new discussion in the paper on penal charges comes into play. So, any assessment how our gold loan yield should impact because of that, any change from current rate of 17.5%?

Nirmal Jain: We already changed all our products and there'll be negligible impact, there'll be no impact, because we are not really charging penal interest now.

Renish: Okay. So, we have already tweaked our product?

Nirmal Jain: That's right.

Renish: Got it. And sir secondly, in your opening remarks.

Nirmal Jain: Historically also we never had significant component on this. But we have further tweaked our product, so we are not dependent on this anymore.

Renish: Got it, sir. Secondly, in your opening remarks, you did mention sort of lowering the securitization and building more of a co-lending book. So, accounting wise of course, this up-fronting of income will go away. So, net-net how do you see sustainable ROA, ROE sort of looking like in FY24, and beyond. Just considering, sort of no change in the mix.

Nirmal Jain: No, we will sustain our ROA and ROE, as I have said, as it tapers off over a period of time, the surplus of co-lending also will keep growing. So, whatever working we have done internally, I don't think there'll be any negative impact. So, we should be able to maintain profitability as well as ROE growth.

Renish: So, basically ROE around 20% on a sustainable basis?

Nirmal Jain: That's correct. And 25% growth in the top line as well as bottom line. So, that is what we had indicated, so we are on track. At this point in time, we don't see any threat to that.

Renish: Got it. And sir, let's say, on an ongoing basis, what should be the split between on balance sheet and off-balance sheet AUM?

Nirmal Jain: Yes, that's a good question. Normally, it should be 60:40. Now in home loan because we have raised equity and we are sitting on a much significant liquidity there. So, probably this year in home loan, the off book may go down a little bit, but over medium term you can say 60:40, and probably they can go to 55:45 also. So, 45 off book but, in the interim, in the home loan piece because we have much higher capital adequacy and liquidity this year probably there may be a drop in the off book there.

Renish: Okay. So, at consol level this year should be 60:40?

Nirmal Jain: At consol level, this year also probably, it will be in the range of 60:40, give and take 1%, 2% here and there.

Renish: Got it and then going ahead it could be 55:45?

Nirmal Jain: Yes.

Moderator: Thank you. The next question is from the line of Nishant Shah from Millennium Capital. Please go ahead.

Nishant Shah: So, I had a question on just the gold loan business, the larger kind of peers allude to the competitive pressure now kind of easing off, a lot of the old teaser loans which were given out at lower yields also are running off. We are seeing much better growth at IIFL, but the yield seems to be quite stable, like sequentially, minor dip as well. Could you talk about that about your business like what is kind of driving the growth, what is driving the kind of relatively somber margins and just like a broader industry comment on where do you see the competitive intensity in the gold loan business. Because some of the other banks which have reported very good gold loan growth. So, any comments on the competitive pressure deltas?

Nirmal Jain: Good question Nishant thanks. So, the competitive pressure is easing, that's a fact. And that should also in effect reduce the pressure on pricing. I'll come to that in a minute. Basically, the banks gold loan portfolio is around nine lakh crores, which is the direct gold loan portfolio. And some banks, when they have Agri loan with the collateral of gold, still they classify it as Agri loan. So, I would think that the bank's gold loan portfolio is even more than bigger than that. So, obviously they have a much larger portfolio; may be 3-4 NBFC put together will be close to about a lakh crore. But in terms of our pricing and NIMs, so what happens, if you see our portfolio has grown quite well, quite aggressively. And there has been significantly larger disbursement of the new loan, which had been at a competitive rate one. Two, as I just said that the penal thing we have removed, in terms of, in anticipation of the changes in policy that are going to take place now. So, that has impacted our yield slightly. Also, in terms of product, if you have a monthly income product which is not a bullet loan, then your yield is slightly lower. The impact of the price increase or the easing of competitive pressure also happens only for the incremental business and not for the portfolio as much. So, we should see a slight visual improvement but, 17.5%, 18% is what probably long term also will be maintained. So, while competition has eased from new players, but banks are still competitive, and they're still aggressive, so, on a medium to long term basis might be 50 basis points here and there, but this is the yield band where will be.

Moderator: Thank you. We have the next question from the line of Mona Khetan from Dolat Capital. Please go ahead.

Mona Khetan: I had a couple of questions on the gold book, so we had this AUM of about Rs. 20,000 to 21,000 crores, how much of this would be off book as such?

Nirmal Jain: Out of the current book of Rs. 20,000 crores maybe half of it will be off book but I will give you precise number. On book is Rs. 8,330 crores, which is on slide number 13. So, that is on book and the balance is off book.

Mona Khetan: Okay. And if I have to look at the breakup of this gold AUM by ticket size, what will be the share below one lakh, between one to three lakhs and say above three lakhs. If you could help us.

Nirmal Jain: Yes. Up to one lakh, we have 33%, one to two lakh is 26%, so less than two lakh we have 59%, two to five lakh is 23% and greater than five lakh is 17%.

Mona Khetan: Okay. Greater than five lakh is 17%?

Nirmal Jain: 17% is above five lakhs, 83% is below five lakhs. Almost 60% is below two lakhs.

Mona Khetan: Got it. And finally, then what share of AUM would have probably yields below or equal to 12%?

Nirmal Jain: Will be around Rs. 4,000 crores. So, about 20% is at 12% or below 12%.

Moderator: Thank you. The next question is from the line of Sanket Chheda from DAM Capital. Please go ahead.

Sanket Chheda: My query was again to the point that you alluded that since the focus is now more on co-lending maybe the upfront related income would be less and that's visible in the revenue from operation lines that we report on the net gain on de-recognition, but this quarter, there have been sharp uptick on fee and commission income and other income. So, is that because of the co-lending?

Nirmal Jain: Now, there are two, three things there. One is that the disbursements were higher, so the amount of processing fee that is on disbursement, two co-lending and three cross sell of insurance also peaks in this quarter. So, historically also our Q4 fee and commission will always be higher. So, the cross-sell insurance also comes here. Last quarter we did insurance maybe more than what we do in the previous three quarters so that, co-lending as well as disbursement related, so all these three combined.

Sanket Chheda: Okay. So, on the net gain on amortized categories, so since the gains are coming down, do we expect the loss on the de-recognition also to moderate or come down as we move ahead and reduce the focus there?

Nirmal Jain: Loss of?

Sanket Chheda: Net loss on de-recognition?

Nirmal Jain: No, so normally there will not be a net loss of de-recognition because, that can happen when suppose that you had assumed certain longer tenure of the loan, and the loans get repaid, but normally we are conservative on the whole. So, it's unlikely that we'll have any significant loss there. There can be a few crores here and there on a quarter-on-quarter basis, sometimes there be a gain, sometimes there will be this thing, but this will not be a significant number.

Sanket Chheda: Sure sir. And lastly since we are talking about some operators.

Nirmal Jain: What has happened, sorry just to explain one thing that, in Q4, we were impacted more by the MCLR increase by the bank which was higher than the rate increase that we passed on, particularly in our mortgage book. So, what happens is that when we do co-lending, or when we do assignment, the interest rate, which is committed to the bank or which goes to bank, many a times, it's linked to MCLR. Now, if you look at our home loan book, we have passed only 150 basis point. And so, when we pass on the cost increase, we try to take into account two, three things. One particularly in home loan, we don't want the defaults to increase, two we also have a long-term customers where there is goodwill as a repeat business, and three, how much we can afford, what is the capacity to sort of adjust within our margin and what we need to pass on. And we look at the environment and do that. So, that impact also has come in the last quarter, but hopefully this quarter onward as we have seen that the bank's MCLR did not increase or might be corrected, so that negative impact will also not be there.

Sanket Chheda: Sure, very clear. And lastly, wanted to ask that, since we are guiding that maybe operating efficiencies should start to kick in when we are writing for a lower cost to income and also if we see this year despite say the cost of funds moving up, we have managed to clock about a little more than 3.5% ROA. So, as we move ahead in FY24, or say FY25 do we see a possibility of getting 4% in terms of ROA with operating efficiency kicking it and maybe at some point credit cost also maybe normalizing a bit. So, do we see that?

Nirmal Jain: We have consistently improved our ROA and that trend should continue. So, maybe four or closer to four is what we should target this year.

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

Nischint Chawathe: Till date or probably in the fourth quarter. How much rate hikes would you have done for your customers. In the fourth quarter, which is last quarter, how much of rate hikes would you have done for your customers?

Nirmal Jain: Monu correct me if I'm wrong, in home loan, we have taken only 150 basis points?

Monu Ratra: Yes, sir but he is asking only on Q4.

Nirmal Jain: In Q4, I don't think we've done any rate hike, have we done?

Monu Ratra: Yes, there was just a 25-bps rate hike that's it.

Nirmal Jain: 25 bps rate hike in Q4 and that is relevant only for home loans because in other products, we don't do any rate changes.

Nischint Chawathe: No, but even in the other products you would have increased rates for incremental customers, right?

Nirmal Jain: So, in microfinance business, we increased 100 to 200 basis points, it depends on state-to-state. And in home loan we have taken 25 basis points rate hike, but microfinance happened over last three, four quarters. In digital loans, we would have taken a rate hike of about 100 basis point, for a small business.

Nischint Chawathe: So, broadly across products, we are around 100 to 125 over the entire portfolio?

Nirmal Jain: On a weighted average basis, because home loan is almost half of it will be about maybe 50, 60 basis points.

Nischint Chawathe: For the fourth quarter you mean?

Nirmal Jain: That's right.

Nischint Chawathe: And the 100 basis points, you said 100 to 200 in microfinance is solely in the fourth quarter?

Nirmal Jain: No, this has happened over the three, four quarters. So, if you see the portfolio yield of the product, then that will basically tell us where we stand. So, our portfolio yield in the microfinance has gone up from 23.2 to 23.8, so 60 basis point increase there.

Nischint Chawathe: But again, these are fixed rate loans?

Nirmal Jain: So, this is on an entire portfolio, but the churn is also high in these loans, but these are fixed rate loans, you are right.

Nischint Chawathe: Sure. Over a four-quarter basis, very broadly over a four-quarter basis 100 to 125 at the most is likely to what you are saying?

Nirmal Jain: On the incremental loan yes. And its portfolio yield has gone up only by 40 basis point. But you are right because this is on the new loan so the new loan will be on 100 to 125 basis points.

Nischint Chawathe: The second question is, on leverage, based on your conversations with bankers or rating agency, what kind of a leverage are they comfortable with and do they see this as AUM upon net worth or do they see this as loans on balance sheet upon net worth how do they really see this. Thank you.

Nirmal Jain: They are comfortable with up to 4.5 - 5 times, or maybe in NBFC our 4.5, and in HFC can be up to 6 - 7 times also that they are comfortable. And this is basically done based on on-balance sheet, the off-balance sheet assets are not part of this, so net worth to your debt on-balance sheet, that is a relevant number. So, many times, question arises whether in gearing, the DA or the assigned pool should be taken. Now, if you really look at it, when we assign it, it becomes part of the bank's risk balance sheet because they have to provide for risk weightage and they have to take that, they have to actually allocate risk capital and take that part of their gearing. So, it can't be double counted and many a times in many countries these bundled assets are sold 10 times, obviously they are the true sale along with the risk then the seller basically gets it off the balance sheet completely without any gearing or without any risk capital.

Nischint Chawathe: And from a regulatory point of view, there is no cap or no risk?

Nirmal Jain: From a regulatory point of view, unless you take around with the risk, you won't get the private sector advantage also.

Nischint Chawathe: Got it. And there is no cap in terms of how much from an NBFC, how much should be on book, off book per se there is no cap right now?

Nirmal Jain: No, there is no cap.

Moderator: Thank you. The next question is from the line of Pruthul Shah from Anubhuti Advisors. Please go ahead.

Pruthul Shah: Sir, given that you have provided for the guidance of 25% in top line and bottom line and also guiding about 20% ROE, but my question is with respect to the net NPA. So, we are above like 1%, we have around 1.08% of net NPA. So, going forward next year and beyond what is the level that we can expect in the case of net NPAs would it be going down to 0.7, 0.8 or it will remain higher, given that we are lending to say MFI segment which has a higher yield. So, what's the understanding of this net NPA part, what is the guidance about it?

Nirmal Jain: So, we would like to bring it under 1%. Now we really can't guide you with the 70, 80 or 90 but it'll be under 1%. So, in basis points it should be two digit and not three digits so. But our provision coverage is significantly more - 167%. So, what is happening in net NPA if we are really aggressive in stage one and stage two, the net NPA will not come down, but in terms of our total provision, it is significantly more than our gross NPA. So, supposing if I wanted to provide the management overlay and I say that all is provision against stage three net NPA can become zero. But that is more like technical or optics. But practically speaking, our provision coverage is almost 167%. So, what it means is that the total provision that we carry on the books is 1.67 times our GNPA.

Moderator: Thank you.

Moderator: We do not have any further questions. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Management: Thank you very much. And I think it was a very meaningful conversation that we had, in case you have any further queries feel free to write to us at our Investor Relations email ID and we will be happy to answer your questions and keep the engagement going. Thank you.

Management: Thank everybody.

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