



“IIFL Finance Limited Q3 FY-21 Earnings Conference Call”

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**MANAGEMENT: MR. NIRMAL JAIN – CHAIRMAN
MR. RAJESH RAJAK – CHIEF FINANCIAL OFFICER
MR. MONU RATRA – CEO, IIFL HOME FINANCE
MR. VENKATESH N – MANAGING DIRECTOR,
SAMASTA MICROFINANCE**

Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance Limited Q3 FY21 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 sir.

Rajesh Rajak: Good afternoon everyone. On behalf of team IIFL Finance I thank all of you for joining us on this call. I am Rajesh Rajak – CFO accompanied by Mr. Nirmal Jain – our Chairman, Mr. Monu Ratra, CEO, IIFL Home Finance and Mr. N. Venkatesh – Managing Director, at Samasta Microfinance.

I'll hand over to our Chairman Mr. Jain to comment on the economy and the group's overall strategy and plans. Over to you sir.

Nirmal Jain: Thank you Rajesh. Good afternoon and welcome everybody on this call. So macro environment and prospects for V shaped recovery now look much brighter with a no bad news budget that we had yesterday. And also the capex and investment outlays that are provided in the budget, that makes 11% GDP a very achievable target. Also, I would say that the execution track record of this Finance Minister and the Government inspires confidence about performance on the budget proposal next year and also later. And as the economy recovers from a negative to a very strong positive growth, we should see a robust demand for credit, especially for MSME and affordable housing. And the underlying trends of digitization and formalization of the economy will further boost the demand for credit. And we are fairly optimistic about our business prospects as almost our entire business is driven by these two sectors, which is MSME and affordable housing. So if you look at microfinance, there's the first letter M of MSME, is the micro businesses income generating activities that we fund, and also in gold loan, almost 75% to 80% of our loans are for short term working capital requirements of the small businesses.

In this context, we also very pleased to note that now liquidity has eased. Our credit demand is robust, interest rates are falling, collection efficiency is getting better. Construction and real estate which had become an Achilles heel, is likely to see a substantial exit very soon, and so on. But still from a longer term perspective, what we have seen in last 2.5 years is that the liquidity situations can be volatile for NBFCs as they are dependent on wholesale sources of funding. Banks as we know have access to stable liability sources like deposits and besides have access to lender of last resort RBI. Historically, banks have built an asset mix, which is of large corporate loans and retail with focus on priority sector. In the last few years, we've seen that they're looking at a shift in their balance sheet mix towards retail assets. And this is where partnership between banks and NBFCs that have established branch network, specialized underwriting skills in the niche segments and trained workforce becomes a win-win.

While banks will grow their own network to meet requirements of the growing economy, more often than not, NBFCs will be more efficient in terms of costs, and also more effective in collection and servicing when it comes to small ticket loans. It is not surprising that in the recent past our Finance Minister, RBI, State Bank of India's Chairman everybody has emphasized co-lending as a way ahead for banks and NBFCs partnership. They all recognize that, this is the most optimum and viable way to channelize our bank liquidity into productive and credit starved segments of the society over long term. Our experience of last few months is encouraging. While it takes enormous time to get agreements past legal, compliance, risk and business departments of a bank and also workflow and technology integrated, and bank starts slowly with 10 branches, then they will scale it up to 50 and so on. But the good news is, almost all the banks that we've spoken to are very keen on the partnership and co-lending and two, the market size and opportunity is very large. So when we look at our market share say affordable housing or MSME it's just about 1% to 2% or even gold loan if you look at the formal lending by banks and NBFCs we may be 3-4% market share. And similar in microfinance.

So we expanded our branch network in 2019 and paused in 2020 and we are seeing positive impact of operating leverage in the results now. Despite being at the forefront of digital technology, we see the need and opportunity to expand branch networks particularly for microfinance and also few locations for gold loan. Typically, our branches break even in 12 to 18 months. So the expansion will be gradual through 2021.

In terms of provisions and write-offs, we take a prudent and conservative approach, while write-offs wherever feasible as per tax laws can give us tax break. But our recovery and collection efforts are not impacted by the accounting. Also collection efficiency is interpreted differently by different companies. We report based on dues collected for the month. And then therefore, we don't include in the numerator the dues for the previous month collected this month. Whereas many other companies have a different approach and they take the total amount of total cash received from the borrower's.

Coming to technology, we have made substantial progress in technology and we have plans to accelerate investment and digital technology in all the product categories in all our businesses. We are already listed on Credall. And we plan to be on OCEN network very soon. And before I sign out, I wish to highlight social impact our business is creating and in this presentation you will find a separate section on that. And efforts we are making towards environmental sustainability as well. It's covered in our presentation so, I am not spending much time on it. With this I handover to our CFO to speak on the financial numbers, thank you.

Moderator:

Thank you very much.

Rajesh Rajak: Thank you Mr. Jain. I will just begin with giving a brief update on the business numbers. So IIFL Financial net profit was Rs.268.3 crores in third quarter FY21, which was up 26% quarter-on-quarter and 47% year-on-year. We recorded our highest ever pre provision operating profit of Rs.615 crores during the quarter which was up 9% quarter-on-

quarter, 127% year-on-year. This was driven by volume growth, reduction in cost of funds and higher efficiency in management of operating costs. Alone AUM grew 3% quarter-on-quarter and 17% year-on-year to Rs.42,264 crores. Our core segments grew faster at 21% year-on-year to Rs. 37,365 crores. A disbursement across core segments for the quarter are significantly higher than last year's same period that is quarter three. Home Loans have grown disbursements at 90% year-on-year, gold loans at 25%, business loans at 43% and microfinance loans at 61% growth in disbursements year-on-year. Retail loans, including consumer loans and small business finance constitutes 90% of our loan book. A strong characteristic of a loan book is a large proportion of loans that are compliant with RBI priority sector lending norms, about 68% of our home loans, 47% of business loans and 90% of our microfinance loans are PSL compliant. In aggregate nearly 43% of our loans are PSL compliant. The large share of retail and PSL compliant loans are of significant value in the current environment where we can sell down these loans today's long term resources. Annualized return on assets for the quarter was 2.6% and return on equity was 18.4%. Our Tier 1, capital adequacy stands at 18% and total capital adequacy stands at 21.4%. Our average cost of borrowings declined 10 basis points quarter-on-quarter to 9% for the quarter. Consolidated GNPA's and NNPA's stood at 1.61% and 0.77% of loans respectively, as against 1.81% and 0.77% respectively in the September quarter. Without considering effect to the Supreme Court interim order proforma GNPA and NNPA would have been 2.87% and 1.46%. respectively. Provision coverage, excluding standard asset provision under IndAS norms on stage three assets was 170% for the quarter.

A brief update on liquidity during the quarter we raised Rs. 3,987 crores term loans and refinance from banks, cash and cash equivalence and committed credit lines from banks and institutions. for Rs. 5,149 crores as of 31st December 2020. We continued to have nil exposure to commercial paper, we have a positive ALM across all buckets whereby inflows cover or exceed expected outflows. A brief update on co-lending and co-origination strategy. In-line with a strategy of grow into partnership model during the quarter. We enter into co-lending arrangement with Standard Chartered Bank and ICICI Bank for extending home loans and secured MSME loans. We have already commenced business in partnership with CSB Bank for dispersing gold loans as announced last quarter.

A brief update on digitization and analytics. We continue to focus on digitization and analytics to improve customer experience and enable a convenient one stop shop for customer's credit and investment needs. We have completely digitized our business loans journey right from customer onboarding to underwriting, disbursement and collections. We are collaborating with the FinTech ecosystem to further enhance our platform and customer experience. With these strong partnerships, we intend to co-create solutions for enhanced experience in SME lending. We have enabled digital top up to retain quality customers in home loan and secured MSME loans wherein the entire journey is paperless. Communication for accepting sanction letter and e-agreement is sent to eligible customer, sent via SMS. The disbursement is automatic with no manual intervention.

Jhatpat Home Loans - our pan India product for instant Home Loans helps all the stakeholders in the housing finance industry- individual home borrowers, developers and company get a loan in an instant manner. Our home loan disbursed via Jhatpat Loans has gained significant traction. Out of the total home loan disbursed in the month of December 2020, 89% were sourced through Jhatpat Loans, the corresponding percentage in January 2020 was 61%. In addition to digital top-up renewal of gold loan launched earlier, during the quarter we have launched home pickup of gold loan wherein the loan officer would visit the applicant's home or office and the entire process is tablet based onboarding, including sanction and disbursal.

IIFL Loans app is being increasingly used for various transactions by customers and has been specially beneficial during COVID lockdown times, giving customers ease and convenience of access. We have about 175,000 average active users on the app for the month of December 2020. That brings an end to the update. We will now open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: I have two questions. One is with regards to the collection efficiency that's given in slide number 15. For the business loans, it's mentioned that quarter three collection efficiencies is 75%, micro finance is 77%. First of all, are these average numbers or ending numbers, that's one and if these are average numbers, then it seems to me that they haven't increased from September 20, because if you look at your last set of results, it was 75% for business loan and 78% for microfinance in September itself. So was there no improvement in this quarter?

Nirmal Jain: Yes, so this quarter didn't come out of COVID impact and what we have seen is that the true picture emerges only after COVID. But there is an improvement in business loan from 60% to 75% and in home loan from 81% to 90% and microfinance from 69% to 77%. So these are the monthly averages, but there's a significant improvement in this quarter, vis-à-vis the previous quarter.

Abhiram Iyer: No, I'm just trying to figure it out from the end of last quarter, last time you had given on a monthly basis and in September, it was 75% and 78% for business loan and microfinance. So microfinance has actually come down over the quarter and business loan has been flat over October, November and December?

Nirmal Jain: No, so what happens that most of the times the collection happens mostly towards the end of the quarter and therefore when you see monthly averages, then they will give you the correct picture of housing. And also, as I explained that collection efficiency is measured differently by different players. So what we do is, that something is due for the month of December, obviously we'll collect November month also in December. And that is actually what happens to some extent in all our businesses. That doesn't get counted in collection efficiency, but if you look towards the end of the quarter obviously collections picks up and therefore, you can't really compare September with October, we can compare September to December.

- Abhiram Iyer:** So what was the numbers of December sir?
- Nirmal Jain:** So December actually is 93%.
- Abhiram Iyer:** This is for business loans?
- Nirmal Jain:** No, microfinance.
- Nirmal Jain:** Business loan is one segment, which has remained a little sluggish so it has hovered around 75% throughout the quarter.
- Abhiram Iyer:** Got it sir. And is there any, like programs in place to correct this?
- Nirmal Jain:** Okay, I'll tell you about collections, so collection is happening with some delay, because these are small borrowers. So, typically you might see the 30 DPD, but then we look at 60 and 90 days, then we have seen that the collection is improving.
- Abhiram Iyer:** Got it sir. So basically this has been pushed back by a month?
- Nirmal Jain:** This is a typical characteristic of smaller borrowers, the smaller loans because you need to, and now things are recovering so we have seen that the collection is also improving, but it is happening with a lag.
- Moderator:** Thank you. The next question is from the line of Thomas Drissner from Aberdeen Standard Investments. Please go ahead.
- Thomas Drissner:** I have one question that's been with regard to liquidity, you've got a slide on this topic, which is slide number 20 which shows that your reliance on term loan, on bank lending basically keeps going up and equally bond funding is trending down quite significantly. If you could share little bit of color, what the drivers are, is it that risk appetite in the onshore bond market is still fairly muted. Or is it purely a reflection of pricing, a bit of color on that would be helpful?
- Nirmal Jain:** Right. So a significant portion of our financing is now happening through securitization assignment which is not debt, but what we are doing is we are selling down our assets. So, last quarter, we have sold down something like 4400 crores and also the earlier sold down assets of 2000 crore we have got repaid. So that has become a significant contributor. Now coming to refinancing, from 152 in Q2, it has gone up to 500 in Q3, the issuances of bonds that you're seeing has come down but in Q2, we had a bond issuance to the bank under the TLTRO scheme. So when banks are funding actually their appraisal and whether their funding goes through bonds and term loan is similar. The Q4 last year bond issue which you see 2856 is the dollar bond issue that we did, which is a foreign currency dollar denominated bond that we issued in international market. This obviously will work for a while maybe once in two years.

Therefore, I don't think there's a significant change in mix but the nature of business is such that sometimes you'll see some of the pieces of pipe moving in different ways.

Thomas Drissner: Okay, thank you and then would you say just a note forward looking basis, would you say that the dollar bond market remains important for the company for refinancing purpose?

Nirmal Jain: Not really, actually to be very honest dollar bond market is more opportunistic and more for diversification, but in fact, when the dollar bonds have been quoting at a discount, we applied to RBI to allow us to buy back but RBI refused permission for that. But this is the market which is there and when the opportunity is right, we can always tap it. But, over a longer time period, this can be a good source of money on a periodic basis, so this is a market you can tap say once in two years or there about.

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

Ashwin Kumar: My question is on collection efficiency part. So just wanted to understand some of segments like, business loans and so on, it's only like 75%. But if I look at your NPA assets, even if you exclude the Supreme Court dispensation, that have gone up very significantly. So, how do we look at this, is it like a lot of customers are missing one, two installments? Because if it on an average 75%, it means like, it could mean like one customer paying in October and other customer is paying in November and so on?

Nirmal Jain: So, 75% three out of four customers are paying in the same month, and the remaining 25% customers, maybe some of them 20%, 22%, 23% are paying in the next say, second month or third month. So when they don't pay for three months, then only they get reported as NPA. And in business loan, our loan book GNPA is 2.46%. But if you look at our proforma is 6.5%, we also took an aggressive write offs and write downs in this segment, because wherever we see that from a tax point of view and from the age of the loan point of view, it's prudent to write it off, we do that, but that doesn't affect our collection effort, because our collection people they get the buckets of all the loans. So regardless of how we have done the accounting, and also two thirds of our loan book and business loans, more than two thirds is loan against property or secured. There also we are seeing slightly lower stress. So in business loans, there is a stress and that is why proforma GNPA is 6.5%, but it's in a way two things have basically helped us to contain the damage, which is one is significant part of our loan book is secured and two, we have taken aggressive write-offs as required.

Ashwin Kumar: Okay. And similarly, if you can give some color on the microfinance, that also is only 77%. So, what kind of credit losses are you seeing there and which states are you seeing stress, do you have any exposure to Assam or as such?

Nirmal Jain: So, microfinance fortunately, we are all over we have very well spread out network and 88% of our business is from rural segments. So, if you really see microfinance industry, then the performance has been very varied across the companies, but in the COVID time period, the companies that have been more dependent on urban areas got impacted more compared to

companies that have been predominantly servicing the rural areas. So, if you look at industry wise, 46% is urban, 54% is rural, but in our case 88% of our customers are from rural areas. Secondly, microfinance we have provided additional 40 crores in this quarter and GNPA's has gone up to 2.24%. Our Assam exposure is miniscule and all over we are well distributed we are almost there in 25 state now. So we aren't really dependent on any one state as such.

Ashwin Kumar:

And how much will be your exposure to Assam, which has been under news?

Nirmal Jain:

1.79% to be precise is Assam exposure. Maharashtra also has been very badly hit by some of the microfinance companies, our exposure to Maharashtra is 2.79%.

Moderator:

Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar:

Any guidance on restructuring or the DCCO extension?

Nirmal Jain:

No, DCCO extension for what?

Prashanth Sridhar:

Sir, I believe you have a construction finance book as well, which you're going to put under AIF?

Nirmal Jain:

Yes, so construction finance book is actually almost significant, our substantial part book will probably move to AIF, so, all these things will become irrelevant, because the book will be held by an alternate investment fund that is what we're planning to do.

Prashanth Sridhar:

Okay. And what about restructuring on the remaining book, what kind of expectations do you have?

Nirmal Jain:

So, remaining book will continue and there we have adequate provision. So, as at December end we are carrying Rs.458 crore rupees of provision and also we have written-off quite aggressively. Some of that money will also have the potential to get collected. So, we will have a significant provision for them, so remaining book will have two parts - one is the smaller loans which are say less than 20-25 crore loans and they have been generally doing well. So, very small ticket loans we are not planning to move it to AIF and then there'll be a few residual projects for that we will have adequate cover, but this has become significant part of our book. And as we had guided earlier that going forward as a group, we are doing our real estate funding through alternate investment fund, which is part of our wealth management subsidiary company AMC. In the NBFC HFC we might continue to do the residual funding of the project that we have already financed or the green and environmentally sustainable building that we are focusing on, but also the typically small ticket construction loans in Tier II and Tier III, where we can connect, we can have a forward linkages to our home loans, but after the transfer to this AIF this book will become insignificant.

Prashanth Sridhar: Okay understood. And you would receive a consideration for the other investors portion and upfront cash or that will also be in some kind of security?

Nirmal Jain: So, what will happen is that, 3600 crore is the target size of the fund out of which Rs.600 crore is the sponsors contribution, Rs.2400 upfront cash you get. So our 3600 our real estate book has been generating return of around 14.5% if you see last quarter. The AIF will not be managed by NBFC, it will be completely independent. And our target is that, most of the exits will happen over a three year time period. Till then, the income accrual can be conservative, but at the same time this will also save us the provisioning because in last few quarters we've been really hit very hard by this segment of our business in terms of provisioning requirement.

Prashanth Sridhar: Did I hear it right, you said the total consideration for the RE book is 6600 crore?

Nirmal Jain: No, the total consideration for RE book is not 3600 crores, we will transfer something like Rs.3000 crore of RE book to the fund, Rs.600 crore will be the cash or liquidity in the fund. So, whatever we are transferring, will be transferred at book value. The remaining part of the book will remain in our book as construction finance. Out of this 3600 crore Rs.1200 crore will remain as an AIF investment in our books

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

Vivek Ramakrishnan: See on the business loan portfolio your average ticket size has been coming down. But your onboarding yield has also been coming down, is it typically you would think that the smaller size you will get better yield. And then also, if you see the collection efficiencies has also been also gradually improving, which is par for the course for these kind of smaller customers. How do you see?

Nirmal Jain: It's a good question, but what has happened in business loan, that incrementally we are doing business loans only digitally. So there are very small ticket loans done, which are like, maybe a Rs.1,00,000, Rs.50,000, Rs.2,00,000, that is bringing down the ticket size. So, now, if you see incremental business loan, there are two components of it, one is loan against property, which may be typically a crore or two crore, again there also the focus could be on smaller ticket size. So, in loan against property, your average yeild will be lower, but that is a major component of it. And then the smaller loans that we have started digitally. So today, we don't any longer have any sales force for unsecured business loans, so that entire thing we have phased out and now, we have been pilot testing our digital model. And we'll aggressively expand this as we get confident. So there are a couple of things more we're done. Also, we have tightened our credit threshold. So even though it was a lower yield, but we are focusing only on good quality customers. Obviously business loan growth for the entire industry has been very badly impacted because of COVID. But going forward, when we do digitally, our objective will be that we have a lower yield, but lower credit losses, and almost nil operating costs as far as unsecured business loan is concerned and in secured business loan also you may get lower

yield typically about 14%-14.5% or maybe even lower sometimes. But then your collateral is there and the risk of ultimate loss is very limited.

Vivek Ramakrishnan: Okay, great sir. So, even I guess cost to income improves so that's a good thing. Secondly, congratulations on the various tie-ups you have. Incrementally what proportion of your loans do you think will be on book and what will be through the co-origination tie-ups. Thank you.

Nirmal Jain: So, today what is happening is that we are assigning and securitizing our books, so we are selling it down. The co-origination tie-up, we started with three banks and probably we're looking at more. They will take three to six months before they become significant, but till then, we'll continue to sell down our books. And even there's a huge market for that. So securitization and assignment also is a very big market. We will continue to do that till this gathers momentum but both these put together, the ratio is already 35%. So, over a period of next two-three years probably the incremental growth will be coming from here. So, if you really look at loan book using our risk capital has declined in this quarter also. Incrementally this 35% over next two to three years may become 50% to 60% also.

Moderator: Thank you. The next question is from the line of Kush Sonigara from Mahindra Manulife. Please go ahead.

Kush Sonigara: I have two questions, so one is on your gold loan LTV so on a sequential basis I've noticed that gold loan LTV has moved up from 68% to 72%. Now, even if I look at the standalone 72 number, that looks too aggressive. So, wanted to understand what exactly is our strategy, how we are doing with it?

Nirmal Jain: Actually 75 is allowed and during moratorium some of the interest would have got capitalized which is getting collected now. And also gold prices in the last quarter, so in the quarter before gold prices had gone up and that's why you saw that LTV was little lower, but 72 is very comfortable. Today banks are giving loan at 90% LTV, and NBFCs are allowed up to 75%, but this includes also the interest due which is also counted while calculating LTV, when we look at the loan we include the interest accrued and due but not paid.

Kush Sonigara: I understand 75% is a regulatory cap, but so one can expect the number to remain neutral?

Nirmal Jain: In the gold business important thing is how do you value and what do you tell customers. So when there is a gold which is, say you valued as a 20 carat or 22 carat that can make a lot of difference in what you communicate to customer and how you account internally, but we are very conservative when it comes to valuing the customer's gold. So every jewelry will have certain deductions for impurities, or several other things in that and that is where you build your cushion. But it will remain around these levels of 68 to 72.

Kush Sonigara: Okay. So, second one is on the stage two numbers. So on a sequential basis, if I look at absolute numbers, so stage two has moved up from around 1700 odd crores to 3100 odd crores. So, I presume most of it would be the COVID stressed book, but internally how do we?

- Nirmal Jain:** So, if you see the stage two a significant component is gold loan. Now, what happens in say home loan or business loan, money is collected automatically through banking channels, 30th day for 30 days, 60 days or whatever, whenever it becomes due. In gold loan it still, a significant part of collection happens in cash where customer either comes to the branch or you have to follow up with the customer. So, typically branch people will start following up with the customer after 30 days, should always see that 30 DPD is high. But most of it gets collected before 90 days, so 90 DPD will be very low. And loss given default in this case is almost negligible. So gold is a specular business where you will see stage two through higher component, but that doesn't get into stage three.
- Kush Sonigara:** Okay. No, because I was just looking at this, so?
- Nirmal Jain:** Our branches start reminding customers who fall into this category after 30 days. So they were already moved into state two.
- Moderator:** Thank you. The next question is from the line of Savi Jain from 2Point2 Capital. Please go ahead.
- Savi Jain:** So, I have couple of questions. One is on the dividend; you've announced quite a large amount of dividend. So just wanted to understand given that our leverage is already on the higher side. And we could also do with a better credit rating going forward. So given the growth ahead, isn't this a little too high, just wanted to understand your thoughts there?
- Nirmal Jain:** No, our dividend is Rs.3 and we have a dividend policy which is board approved and declared that anywhere from 15% to 25% will be our dividend payout ratio, so it is around 18%. And if you look at our quarterly EPS is 7.1, so out of that Rs.3 dividend is not so significant. And net debt to equity ratio has fallen in last quarter as we have securitize and assigned more assets so, but dividend we have to maintain, so we have a consistent track record of dividend since listing and we continue to do that.
- Savi Jain:** Okay. No, given that our stock price at least until the last week, it was not at a stage where you would probably be able want to raise more money?
- Nirmal Jain:** Every year we have given dividend and we will be very consistent in that.
- Savi Jain:** Okay. Appreciate and the second question is on the wholesale book, the offer that you talked about. So you mentioned it that, is it still at a diligence stage, or is it like at a very advanced stage or where exactly is the process right now?
- Nirmal Jain:** Yes, so there's a final diligence happening that too on advanced stage but, there's a diligence is underway.

Savi Jain: And you mentioned we would not need to take provisioning once we transfer those assets there, so how exactly will it work, it will show us investment on our book and we would need to write-back?

Nirmal Jain: So, if we do, if we achieve the entire target and do Rs.3600 crore of fund, Rs.1200 crore appears as investment in our book, as investment in alternate investment fund. So, the units will be held by us and they will appear in investment in our books.

Savi Jain: And what part of the money we will get back?

Nirmal Jain: So, what happens in the sponsors contribution normally other investors get paid up first and then the residual comes to you. The provisions or not will depend on the fair value which can be higher or lower than the cost and that depends on how the valuation comes out.

Savi Jain: Okay, and last question is on the gold loan front. So there's obviously been a lot of competition by banks in the last few quarters. So just wanted to understand are you incrementally seeing a large degree of market share loss and growth tapering off in the gold loan business, that's one and second is this growth buybacks, a result of LTV increase which will probably reverses after 31st March or you think they'll continue to grow at this pace that they are growing over the last few quarters?

Nirmal Jain: No, gold we are increasing the customers and the gold tonnage also in our custody. And secondly, yes you're right, the competition has increased significantly. But there's a huge unorganized market so those pawnbrokers, moneylenders and that is moving to the formal market, which is NBFCs and banks, which is a good trend. So, in last few four, five years we are seeing that there is a underlying trend of formalization of economy where many things that were happening in informal sector are getting back to formal sector. So, while we don't have precise numbers, but lot of market share is coming from there as well.

Savi Jain: Okay, and so you are continuing to see the same kind of growth that you were seeing in the last few quarters in the gold business?

Nirmal Jain: Okay. When the gold prices go up obviously the LTV goes up and all the gold loan companies will see a much robust growth. So it might taper off, it may not be as strong, in fact in Q3 is already a little lower than what Q2 growth was. But there'll be healthy growth, so 15% to 20% growth is what one should considered as a healthy growth in a year.

Savi Jain: Right. And branches, you mentioned you're planning to open, so how many branches are you planning to open in the next, in this year probably?

Nirmal Jain: So we can't put a number on that but, in both our businesses like microfinance business, in particular and also gold loan business, we need some more branches, because there's some good locations that were left out, because this entire expansion plan was paused in 2020 throughout the year, all of a sudden, in the early part of the year. So there are some

opportunities, it won't be very aggressive expansion as probably in 2019, we had a relative to number of branches we had, we expanded very rapidly. But so it again depends, the location study which is done by every area, every state and depending on that they decide on the branch network. So, I can't give a number at this point in time. But as I said that throughout this calendar year we will continue to grow the network.

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

Abhiram Iyer: My first question was on the rating, actions on the USD bond rather. So, Fitch have placed a USD bond on a negative rating outlook for close to 11 months now, is there any update from the company on, rather than discussions for this to be removed because it's quite a long time that it's been on a waiting watch?

Nirmal Jain: So, rating agency basically has a negative on the entire sector or even most of the very well-known banks in India. So we'll engage with them again, our liquidity has improved, even our debt equity has improved our profitability has improved significantly. So we'll make a representation to them. But, as I was listening to in the budget speech, or maybe some that India, being fifth largest economy still is not investment grade. So somehow, rating agencies have been little conservative in my opinion for the Indian financial sector. I'm not talking about IIFL, but all the banks and NBFC. But as far as we are concerned, we'll engage with them because what you said is absolutely right, that our numbers improved significantly, and is a good time to go back to rating agencies.

Abhiram Iyer: Got it sir. The second question that I had was on cash flows. So forgive me if I'm being a bit technical on its numbers right now. But, if I look at your balance sheet and your income statement for the quarter, you've raised debt by about close to around 16 billion INR. Your operating income is somewhere around 5 billion INR so that's close to 21 billion INR which you've received in cash and money. Whereas, if I look at the other side of your balance sheet, the cash and equivalence investments have increased by only around 4 billion INR and the loans have increased around 10-10.5 billion INR. So there seems to be a discrepancy of around 6 billion INR, or 600 crores if I look at it. So my question was, if some of the income not coming in as cash, because that's the only thing that seems to explain this?

Nirmal Jain: Rajesh can you understand what is the question and what are the numbers he is referring to?

Rajesh Rajak: See, what I have understood Abhiram saying is that, you have your cash raised, but what you have to take into consideration Abhiram is also our AUM, our book is growing so we will add about 1400 crore of increase in AUM as well.

Nirmal Jain: No, the discrepancy is the securitized assets as per IndAS have to be taken in the books. Maybe, so that is what could be causing some of the difference. So during the quarter, if you see from a 1000 crore of incremental securitization was done. So what happens in a securitized asset is

that actually the risk is off the book. But as per IndAS accounting you cannot derecognize it. So you add the borrowing and loan both with that amount.

Abhiram Iyer: But that's not in form of cash, which is why there is a discrepancy?

Nirmal Jain: Yes. So that is again, but in IGAAP accounting, we were not required to take securitized asset then our loan book would have been 27,692 instead of 30,000 odd crores that we have.

Abhiram Iyer: Okay, got it. So, let me connect back again, maybe offline.

Nirmal Jain: But what we can do is maybe, if you can put a mail then we can put the numbers, reconcile them properly and put it in.

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

Sivakumar K: So, just to clarify on the CRE AIF, you said that once the AIF takes over 3000 crores of the CRE book, you will be left with the 1300 crore of residual CRE loans, right?

Nirmal Jain: Yes, right.

Sivakumar K: And they have already seen a provision of 458 crore, that's what you said?

Nirmal Jain: That's right.

Sivakumar K: Okay. Sir and coming to your own cash infusion for the AIF, so from our side it will be about 1200 crores, of sponsor cash increase?

Nirmal Jain: The way we are planning is, that we are trying to estimate that what is the last mile cash flow requirement for all these projects so that the money kept can be made available and the project can get executed very fast because what we are seeing is that, there is a demand for affordable housing. In fact housing has picked up all over and in some of the projects we are seeing amazing spurt of sales that in last few months has come. So, the idea is that provide enough liquidity for last mile so the project gets completed very rapidly. So, what will we do is that, when we transfer certain things, so the total size is 3600 crore which include the cash required for last mile, so we'll activate it properly and then provide for that in the fund itself?

Sivakumar K: Okay. So roughly what's the?

Nirmal Jain: So, supposing out of 3600 Crs, whatever is the cash requirement for last mile funding will get reduced and the remaining amount we will transfer it to the fund.

Sivakumar K: I see, and will there be any stipulation on the cash infusion being done by the sponsor?

- Nirmal Jain:** Come again. No, the way the AIF is structured, and has happened in the industry, that the senior holders get basically fixed return, but they get a priority cash flow. So, whatever cash flow is generated from the project will get paid out to non-sponsor investors, which is the two thirds of the fund. And the residual is what comes to sponsor.
- Sivakumar K:** Okay. As a sponsor, we'll be holding the junior tranche, right?
- Nirmal Jain:** Yes, that's right.
- Sivakumar K:** Okay. Sir roughly what will be the final cash infusion after you must have done some calculations on the cash requirements of each of those projects, right?
- Nirmal Jain:** So, there will be about around maybe 15% of the total thing will be the cash, broadly required.
- Sivakumar K:** 15%. Okay.
- Nirmal Jain:** If we provide for 15% and we are safe, we will make sure the projects get executed very fast. So, what happens in the project, it also depends on what is the success on launch. So when you're constructing, if during the launch you get very good response, then the cash flow from the buyers only pay for the rest of the project. But if you're conservative and you say, Okay, let me plan for even if the response is poor, but my project should not get affected. So then we'll try for a little more. But we don't expect it to be more than 15%-17% kind of a thing.
- Sivakumar K:** Okay, 15%-17% of the total size?
- Nirmal Jain:** Yes, it's a ballpark number. So, I really don't have a precise number, because the work is still underway. And maybe next few weeks, we'll have clarity on that.
- Sivakumar K:** Any timeline sir when this AIF will be tied up?
- Nirmal Jain:** So, as we have indicated a binding term has been signed and probably we will consummate this transaction in this next two months.
- Sivakumar K:** Okay. And to that extent the capital will be freed up for you right?
- Nirmal Jain:** That's right. So the biggest advantage of this is that the capital frees up for us. And also we become focused on retail, as we always said that then our core DNA, the sweet spot for growth is the retail and digital. So then, it becomes a very focused business model for us. So we have four product segments, which are core as we are always highlighted. So this non-core segment which is already around 10%. But we'll probably try to reduce it to as little as possible.
- Sivakumar K:** Okay. And in the microfinance, would you continue to see the growth traction that we got to see in Q3?

- Nirmal Jain:** Yes, microfinance should see very strong. Microfinance business keeps getting local issues, but what our experience is that if you are a pan India company with all over, with your presence which is fairly balance then the damage doesn't become very significant for the entire book. But we see great opportunity in microfinance business going forward.
- Moderator:** Thank you very much. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.
- Jehan Bhadha:** Sir, if you can sum up the asset quality, how much is the stress book and what kind of credit costs do we foresee, because this quarter our provisioning was really low. And on the other hand, the collection efficiencies seem to be a bit low. So, if you can just sum up the entire thing?
- Nirmal Jain:** No our provisioning is not low at 267 crores provisioning is very high, because historically our credit losses provisioning have been around 80 to 100 basis points, we should be incurring something of around 100 crore. So, we have provided fairly aggressively in this quarter and this significant amount of this provisioning is for CRE and MSME book. Hopefully, going forward our provisioning requirements should reduce from here.
- Jehan Bhadha:** Right and the amount of stress book according to you would be how much?
- Nirmal Jain:** So, amount of stress book is what we have provided for. So, our provision basically, if you look at without considering Supreme Court order, then 2.87% is our GNPA. And actually, if we look at our provisions, then they fairly cover that. So you can look at that as a book, which is stress book.
- Jehan Bhadha:** Right. And we don't foresee this 2.87 figure to increase too much?
- Nirmal Jain:** No, this should reduce now actually as we go forward.
- Moderator:** Thank you. The next question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.
- Prashanth Sridhar:** Sir, just two questions from my side. One is, how would we look at the growth and disbursements would these have been more to existing or new customers. And number two, just looking at the stage two and three, excluding gold and real estate that is almost sort of doubled. So how do we look at restructuring expectations over there?
- Nirmal Jain:** So disbursement trend is very strong. You see Q3 disbursement basically has been already in the pre COVID level. In most of the businesses, maybe gold loan Q4FY20 was around 5000, which is 4900 now. But other than that, disbursement is very good and obviously we add new customers every month about maybe a lakh odd customers we add every month. And that has been a trend even before COVID and that is now continuing and probably will accelerate. So as the economy recovers, you see that there are new borrowers, existing borrowers also need

more money. There's some case of balance transfer, so that is about disbursement trends. And in terms of our GNPA, I don't know what you're saying about the stress book or whatever, I have not understood your question. If you look at our GNPA, they've fallen from last quarter to this quarter.

Prashanth Sridhar: Yes. My question was the stage two plus three has increased excluding gold and real estate?

Nirmal Jain: Stage three is what is the GNPA, which is 440. I don't know where are you refereeing these numbers from because, these numbers we have not increased there.

Prashanth Sridhar: I am just adding up the stage two plus GNPA, that's what I want.

Nirmal Jain: So, what happens in stage two is, last quarter was moratorium in gold loan in particular, so gold loan is something which will always have high stage 2 numbers. So you have to look at it differently and as I explained in the earlier questions response that gold loan collection effort typically starts after 30 days. So this is where you will see a significant bulging of amounts in the stage to 30 to 90 days. But most of these get collected by 90 days. And you'll see the stage is very minimal there. So, last quarter we are still coming out of moratorium. So, this was not accurately reflecting the stage two. But what you are seeing is a normal trend in the business now.

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

Nirmal Jain: Thank you so much everybody for being on the call. And as always, if you have any more questions or queries, you can always get in touch with our Investor Relations Anup Varghese. Thank you, have a good day ahead.

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.