



## “Manappuram Finance Limited Q1 FY '24 Earnings Conference Call”

**August 10, 2023**



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**Moderator: MR. SANKETCHEDDA – DAM CAPITAL**



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Manappuram Finance Limited Q1 FY '24 Earnings Conference Call, hosted by DAM Capital Advisors Limited.

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 this conference call, please signal an operator by pressing "\*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Sanket Chedda from DAM Capital. Please go ahead, sir. Thank you, and over to you.

**Sanket Chedda:** Hello, and good evening to all of you. We are here today to discuss Manappuram Q1 FY '24 results.

We have the entire management team with us. Mr. V. P. Nandakumar, who is the MD and CEO; Ms. Sumitha Nandan who is the ED; and Mr. Bindu, who is the CFO; Mr. Ravindra Babu, who is MD of Asirvad Micro Finance; Mr. Rajesh who is the CFO; Mr. Kamal Parmar, who is Head of Vehicle business; Mr. Suveen who is our CEO and Mr. Robin Karuvely who is the CFO.

Without further ado, I will hand the call over to Mr. Nandakumar for his opening remarks, post which we will follow up with the question and answer. Over to you, sir.

**V. P. Nandakumar:**

Thank you. Good evening, ladies and gentlemen. Welcome to the conference call for our first quarter FY '24 financials.

I take great pleasure in presenting our results at a time when India is being hailed as a bright spot in the global economy and the optimism about India's growth prospects is all pervasive as we are now the most popular and youthful country in the world. The young cohorts will power our economy and we at Manappuram Finance are well placed to seize the opportunity.

In the last Con Call, I had stressed the need for a balanced and prudent growth strategy. This quarter, we have achieved a notable growth in both AUM and profitability.

I am happy to share that we have recorded a net profit of 498 crore with an improvement of 77% year-on-year, driven by profitability in gold loan and consolidation in Microfinance business which has witnessed a clear turnaround.

Gold loan AUM stands steady at Rs 20,603 crore while standalone AUM at Rs 25,768 crore has grown by 12.6% year-on-year. The consolidated AUM has touched 37,086 crores in Q1 representing an increase of 20.6% over the year-ago quarter. I remember with gratitude all the stakeholders for this creditable performance, but more than anything else, it is the trust of our customers that has helped us negotiate the various challenges that cropped up, big and small, and press ahead on our journey of progress.

The NBFC space is growing with the emergence of new players, but India's underpenetrated financial market gives room for a large number of players to coexist.

The company's Micro Finance subsidiary, Asirvad, has posted an AUM of Rs 10,141 crore showing a growth of 44.6% year-on-year and net profit of 111 crores during Q1 vis-à-vis net loss in the year-ago quarter. I have no doubt that the share of Micro Finance in the overall profit pie is set to go up in the days to come.

Like in the previous quarters, we continue to post maximum growth in the vehicle finance business recording 59.8% increase year-on-year with an AUM of 2,805 crores followed by home loans with AUM of 1,203 crores, registering 37.5% increase over the corresponding quarter in FY '23.

The strategy of diversifying into other sectors is gaining pace. The share of non-gold verticals in our total assets under management now stands at 44% and this is very much in line with our stated objective of achieving a 50:50 portfolio mix between gold and the non-gold segments. We will continue with our policy of becoming a well-diversified NBFC.

Micro Finance business is expected to continue to gain traction as the sector correlates well with the economic recovery. MSME and personal loan segments are also areas where we want to increase our presence. All this, while we continue to maintain a comfortable liquidity position.

For a more comprehensive review of our financial performance, I hand the floor to our CFO Bindu.

**Bindu A L:** Thank you, sir. Good evening, ladies and gentlemen, and thank you for joining us today.

With regard to Q1 performance, our consolidated AUM for Q1 FY '24 was Rs. 37,086 crore representing 4.6% sequential growth and 20.6% Y-o-Y growth. Consolidated profit after tax was Rs. 498 crore, which was up by 20% Q-on-Q and up by 76.7% Y-o-Y.

ROE on a consolidated basis was 20% and the ROA was 5%. Our leverage is currently only 2.8x GNPA at 1.45% versus 1.33% during the previous quarter. Cash-on-cash equivalents on a consolidated basis was Rs. 2,452 crores. The undrawn bank line was Rs. 2,580 crores.

Our CP exposure is nil in the stand-alone entity. Standalone borrowing cost has gone up by 18 basis points in Q1 FY '24. About the Gold Loan business, which constitutes 56% of consolidated AUM, whereas remaining 44% comprises Micro Finance, Vehicle, Housing and MSME business.

Consolidated gold loan AUM was Rs. 20,603 crore, an increase by 4.3% Q-on-Q and Y-o-Y flat. During the quarter, we were able to add 4.46 lakh new customers. Our average gold loan LTV is 64%. Online gold loan book accounts for 55% of total gold loan book.



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Our standalone PAT was Rs. 381 crores, up by 23.2% sequentially and up by 31.3% Y-o-Y.

Coming to Micro Finance business, Asirvad Micro Finance, the AUM stands at Rs. 10,140 crores, including gold loan AUM of Rs. 790 crores, Q-on-Q 1% growth and 45% increase Y-o-Y.

PAT for MFI business has increased to Rs. 111 crore in Q1 versus Rs. 99 crore in Q4 FY '23. Collection efficiency from MFI business stood at 102%, and disbursements during the quarter was Rs. 1,814 crore. Cumulative ECL provision in Asirvad was Rs. 217 crore, and net NPA stands at 1.29%. Asirvad CRAR improved to 22.6%. ROA for the quarter was 4.4%, and ROE of 26.6% for the quarter.

Vehicle Finance, we have reported an AUM of Rs. 2,805 crore, which is up by 14% Q-on-Q and 60% Y-o-Y. ROA for vehicle finance business around 2.2% for this quarter. Collection efficiency including arrears 100%, GNPA 2.9%

Home loan business reported a book of Rs. 1,203 crore, up by 9.7% Q-on-Q and 37.5% Y-o-Y growth. It now operates from 66 branches and reported a profit of Rs. 3.2 crore. Collection efficiency for the quarter was 98%. GNPA at 2.8%.

MSME and Allied business AUM stands at Rs. 2,360 crore, ROA at 3.2, collection efficiency 97% and GNPA of 1.8% .

Our on-lending AUM stands at Rs. 805 crores with a disbursal of Rs. 47 crores during the quarter. Provisions and write-offs in the standalone entity Rs. 21 crore compared to 4.3 crore in Q4. Board declared an interim dividend of Rs. 0.80 for the quarter. Company is well capitalized with a CRAR of 30.5%. Net worth stands at Rs. 10,078 crore and the book value of Rs. 119.

Thank you. We can now go for the Q&A session.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. Abhijit Tibrewal from Motilal Oswal. Please go ahead, sir.

**Abhijit Tibrewal:** Sir, I had three questions. The first one is more around the yield and the cost of borrowings. So, just wanted to understand last quarter we had guided that because we kind of moved from this three month to six month tenure, we had seen a minor blip in the yields. This quarter on slide number six, you reported net yields on gold loans have improved to about 21.6% during this quarter. So, now what's the trajectory going to be like for the current quarter?

Sir, last quarter we had shared that because there was a change in gold loan tenures from three months to six months, we have seen a minor blip in gold loan yields during last quarter. That has obviously recovered this quarter what you have reported on slide number six. The net yields on gold loans have improved to about 21.6% versus 21% that you reported last quarter. I wanted to understand what's the trajectory going to be like on gold loans going forward. And a related

question here. While we have suggested that the cost of borrowings have gone up by about 20 basis points, what's the trajectory going to be like? Because very clearly, we didn't see any significant rise in the cost of borrowings last year, even though repo rates had moved out. So, if you could just answer these two questions first?

**V. P. Nandakumar:** So, gold loan, we hope to maintain a yield between 21% to 22%. That is yes, our schemes are structured like that, and we hope to maintain that. Cost of borrowing has gone up by 20%, 20 bps, and it will be, Bindu, you can say what is the expectation?

**Bindu A L:** So, this quarter we have seen an increase of 20 basis points. The reset is happening and even without repo rate hike, we are seeing a slight increase in the rate from banks. So, I think this quarter also we have to expect a similar increase.

**Abhijit Tibrewal:** Then the second question that I had was more on the gold loan growth. Obviously, we are seeing good gold loan growth, strong gold loan growth last quarter in 4Q, again, another quarter of strong gold loan growth, but ma'am, what I wanted to understand here is very clearly, right? I mean, while reading your opening remarks, you suggested that we have added about 4.46 lakh new gold loan customers, but in terms of the overall gold loan customers that you report, they are not going up. The tonnage, if I look at it, it's not going up.

So, essentially, is it predominantly, I mean, higher gold prices, which will eventually lead to higher LTVs versus 64% that you have reported as on this quarter, which will lead to gold loan growth in the coming quarters? Or is there also reason to believe that we can also increase the customer franchise in gold loans going ahead?

**V. P. Nandakumar:** So, we plan to grow at around 10% to 12% annually by increasing the customer base. It is not just rallying around the gold price. So, customer acquisition is seen improving, and that is the reason for our expectation to grow at a rate of 10% to 12% annually, which has been told earlier also.

**Abhijit Tibrewal:** And sir, just one last question for Bindu ma'am. Ma'am, in the consolidated statements, we are seeing about 55 crores of net gain on fair value changes. If you could just explain what is this?

**Bindu A L:** So, in the case of direct assignment transactions, we can do an upfronting of income based on the true sale concept. So, it was there in the last year financials also. This is coming from MFI financials. So, if you see, last year also, some quarters based on the DA number, there will be a income, but in the subsequent quarters, it will get adjusted.

**Abhijit Tibrewal:** Ma'am, shouldn't that come in net gain on the recognition of financial statements? Because all other companies that we track typically report this upfronting of income in net gain on the recognition of financial instruments. So, this quarter, I mean, because of assignments we are reporting this 55 crores of net gain on fair value changes? Why I ask this is this is a bigger number, ma'am. Y-o-Y this was 10 crores. Last quarter it was about 9 crores.

**Bindu A L:** But if we see the last year, full-year number, because we were doing on an average 1,000 to 1,500 crores DA, for the full year it was 100 crore. So, that will get adjusted. So, based on the DA volume because this quarter DA was high, so it was there, and we are creating the service liability also for that portfolio. So, it is normal operating income only.

**Moderator:** Thank you. The next question is from the line of Nikhil Agarwal from VT Capital. Go ahead.

**Nikhil Agarwal:** One thing on asset quality of MFI book. Stage-2 has decreased by a lot. It has come down from 1.9% to 0.8%, and Stage-3 has not increased by that much. So, if you could just explain the move in the movement there? Also, the consol provisions that we have made, a major part of it has come from MFI book. So, if you are seeing good resolutions, what is the need to make such provisions? And will this continue? And lastly, if you could provide less than 12% yield part of the work that we use to provide in the presentation?

**Bindu A L:** So, yes, in the case of MFI book, there was some write-offs also. That is the reason this quarter the movement between Stage-2 and Stage-3, the impact on the P&L was high, but we expect the credit cost to overall remain within the guidance. So, that is the impact for this quarter. And on that 12% etc., as the gold loan yield is settled, we thought of removing that slide, but 90% of the book is above 12%.

**V. P. Nandakumar:** 2.5% only that below.

**Nikhil Agarwal:** Sorry, 90% is above 12% yield?

**Bindu A L:** Yes.

**Nikhil Agarwal:** And now this will not go beyond 90%, I guess, as it was mentioned last quarter?

**Bindu A L:** It will be in this range.

**V. P. Nandakumar:** Overall yield of around 21%, 22%, this will be same range.

**Nikhil Agarwal:** Also, this write-off, sir, if you could provide us a number, how much was the write-offs? And you said that it will remain in the same range. So, are we expecting more items this year? And will the credit cost remain at the same level?

**Bindu A L:** So, during the quarter, we are at around Rs. 57 crores.

**Nikhil Agarwal:** Rs. 57 crores of write-offs.

**Bindu A L:** So, in the coming quarters, we expect reduced credit cost.

**Nikhil Agarwal:** There was Rs 57 crores of write-offs in this quarter, and in coming quarters, we are not expecting such write-offs?

**Bindu A L:** Yes.

**Nikhil Agarwal:** And was this entirely from micro? Is there any more stress in this book? In MFI book?

**Bindu A L:** Entirely from Micro Finance book.

**Moderator:** Thank you. The next question is from the line of Shubranshu Mishra from PhilipCapital. Please go ahead.

**Shubranshu Mishra:** First part is, if you can decompose this 10%, 12% growth guidance because in this 10%, 12%, there will be a ticket size increase of 5%, 6% which is a normal inflationary growth. There would be some branches which would be breaking even or the productivity would increase, which would be another maybe 2 odd percent. So, actually, the actual growth is limited to maybe less than 2% in that case. So, if you can decompose that?

Second is, if you can split the book in to less than 50,000, 50,000 to 1 lakh, 1 lakh to 2 lakh and 2 lakh and above, that is the first data point I wanted. And the second data point is from Bindu madam for auctions, weighted average LTV both in percentage as well as rupees.

**Bindu A L:** What? 10% to 12% growth expected is from new customer acquisition.

**Shubranshu Mishra:** Sir, it has never happened, sir, from new customer acquisition in the last 10, 12 years, I have been seeing this company, sir. It has never happened, sir.

**V. P. Nandakumar:** Yes, but the conditions are improving now. It's not relying on the gold price.

**Management:** Yes. 50,000, up to 50,000, 26%. 50,000 to 1 lakh is 17%. Then total 43 and above 1 lakh, it is 57%.

**Shubranshu Mishra:** And ma'am, the auctions?

**Bindu A L:** Auctions, comparatively lesser auctions in this quarter. It was only 14 crore during the quarter.

**Shubranshu Mishra:** And on the LTV, ma'am?

**Bindu A L:** LTV 64%.

**Shubranshu Mishra:** And rupees? In rupees?

**Bindu A L:** I will send you, Shubranshu. I can send you.

**Moderator:** Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.

**Piran Engineer:** Just couple of things. Bindu, you mentioned the credit cost guidance you are giving unchanged. If you could just remind us what is the guidance for the year?

**Bindu A L:** So, on the average AUM, our expectation in the new scenario of 2% credit cost. So, that we should be able to maintain. That is 2%, 2.5% credit cost is what we are expecting.

**Piran Engineer:** But it was 3.8%, right, this quarter. So, this sharp decline is coming due to what reason?

**Bindu A L:** So, this quarter, yes, we have taken some write-offs, and that is the reason it has gone up, but if you see the Stage-1, Stage-2, Stage-3, etc., we are not expecting higher.

**Piran Engineer:** And the secondly in terms of, you know, for the gold loan business and Shubranshu was saying I have had like 2.5 million customers for now four or five years. Just wanted to understand in this 2.5 million, let's say, how many would be new to Manappuram? And how many are just, you know, rolling over that loan?

**Bindu A L:** During the quarter, we added new to Manappuram customers of nearly 4.4 lakh. So, as it is a fast-churning business, we are adding a lot of new customers, and that is helping us to grow the business.

**Piran Engineer:** And if I just multiply this number by four, would that be the number of new customers you all added, you know, last year?

**Bindu A L:** See, every quarter, every day we are adding almost 5,000, 5,300 new customers. So, that trend is improving as the category of customers which we are addressing is also becoming active. So, we are seeing an improvement in the new customer addition. So, that is helping us to grow the business.

**Piran Engineer:** Sorry, Bindu, I think when you say new, is it new to Manappuram or someone who took a loan three years back, he is again coming back, you are classifying this in this 4.4 lakh?

**Bindu A L:** New to Manappuram.

**Piran Engineer:** So, that's quite a large number, right?

**Bindu A L:** So, when we onboarded, then we will consider as an existing customer only. There will be campaigns on lost customer, but this 4.4 lakh is totally new to Manappuram.

**Piran Engineer:** So, if you could just tell us then apart from 4.4, how many? So, how many loans did you all disburse this quarter then?

**Bindu A L:** 30,000.

**Piran Engineer:** I mean, not in crores. In number of people, because it would be new to Manappuram plus some people rolling over plus some old people who are reactivated.

**Bindu A L:** Yes. That always used to be very high because our average life of gold loan is around 100 days only. So, to maintain a 20,000-crore book itself we have to do 1,20,000, so almost three times of that will be the disbursement number. So, that is a larger number. So, we are adding new customers. Business is improving, but at the same time, the churning is very fast. So, during the quarter, we did the disbursement of almost 39,000 crore.

**Piran Engineer:** And to how many customers that 39,000 crores?

**Bindu A L:** 50.49 lakh accounts.

**Piran Engineer:** Could you repeat that, please?

**Bindu A L:** 50.49 lakh accounts.

**Bindu A L:** Yes. Because 23 lakh customers, the number of accounts around 44 lakh. So, every quarter there will be one turning.

**V. P. Nandakumar:** 90 days only the life of the loan.

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

**Nischint Chawathe:** Sorry, this is just again a clarification on your cost of borrowing and, you know, your cost of borrowing has gone up around 70 basis points quarter-on-quarter. Is that the right way to look at it or?

**Bindu A L:** So, in the standalone entity and the subsidiary Asirvad Micro Finance, we have seen an increase in cost of borrowings. So, this 70 basis points largely on account of increase in cost of borrowing in Asirvad. Standalone, the increase is 18 basis points.

**Nischint Chawathe:** And, you know, during the quarter, most of your borrowing is coming from, I mean, the increase is mostly coming from bank loans, and you practically not raised any NCDs or in fact, NCDs have gone down. Is there any specific reason for it?

**Bindu A L:** So, in the case of standalone entity, we did an NCD transaction. And as you know, mutual funds market, of course, there will be or the NCD investment will be less due to this last quarter ED issue etc. But again, we are getting a response. So, we are working on few transactions.

**Nischint Chawathe:** And just coming back to the cost of funds, the cost of funds increased significantly in the subsidiary because of any specific detail?

**Bindu A L:** So, few of the banks the reset happened during the quarter. So, that is the reason for increase and nowadays for a two-year term loan etc., it is coming around the 10% range. So, that is the reason it has gone up.

**Nischint Chawathe:** Have you seen any adverse reactions within bankers or debt markets or after the news that came out?

**Bindu A L:** So, we are getting liquidity, but there will be some additional query or those things are happening, but so far we have enough liquidity to grow the business.

**Nischint Chawathe:** And finally, I think on the competitive side on gold loans, do you really, you know, believe that the worst is over? Or would you still see there are other pockets of competition?

**V. P. Nandakumar:** Yes, gold loan we are able to grow. And as I said, we are expecting a growth of 10% to 12% through new customer acquisition. Not only through new customer acquisition, but also the higher amount of loans for our customers. Our ticket size is slowly going up compared to previous years.

**Nischint Chawathe:** But the competitive intensity from bank has reduced or would you kind of say it's stable?

**V. P. Nandakumar:** So, you are asking about competition?

**Nischint Chawathe:** Yes. That's right. In gold loans, yes.

**V. P. Nandakumar:** See, the bank customers and the NBFC customers are different profiles. NBFC customers want a quick turnaround and they foreclose and come again 80% repeat customers, etc. So, the bank's competition, we may not lose our customers. There is enough headroom for banks and non-banks because the space is very large.

**Moderator:** Thank you. The next question is from the line of Shreepal Doshi from Equirus. Please go ahead.

**Shreepal Doshi:** Sir, just on the cost of fund side, wanted to understand what is the incremental cost of borrowing for the standalone business and for the MFI business?

**Management:** Standalone, it will be on around we are expecting turnover in the range of 850 to 875 wherever this in terms of Asirvad incremental, we are expecting in the range of 9.75 to 10.

**Shreepal Doshi:** And have we seen any increase in the last say, on a sequential basis, on a quarter-on-quarter basis?

**Management:** Yes. As he told in the earlier also, yes, you know, kind of last quarter cost of fund has gone up. So, similarly also, we are expecting the coming quarter.

**Shreepal Doshi:** Just while this number was said earlier in the call, wanted to understand the split of the gold loan book in terms of ticket size, so which is below 50,000, 50,000 to 100,000, above 100,000 and about 300,000 ticket size.

**Management:** Upto 50,000, 26%. 50,000 to 1 lakh, 17%. Total 43. And above 1 lakh, 57%. Above 2 lakh we will come back to you.

**Shreepal Doshi:** And what is the update for the capital raise plans that we had indicated for the MFI business?

**V. P. Nandakumar:** So, we are exploring many ways because we may need to have to raise capital. So, yes, we are not finalized. So, various options are being considered.

**Shreepal Doshi:** So, will it only be limited to capital raise or we might look at other options as well?

**V. P. Nandakumar:** Like?

**Shreepal Doshi:** Like, I mean, selling the business or something like that?

**V. P. Nandakumar:** No, no. So, we don't want to sell our stake. Yes, so we will not be a seller at all. So, for the growth capital, we may raise money from outside.

**Moderator:** Thank you. The next question is from Aalok from MNCL. Please go ahead.

**Aalok:** I was just trying to understand, you know, how do you look at the improvement in the yields on the gold loan portfolio front? I am sorry. I missed the initial conversation, but we have seen meaningful improvement in the yields there. How do we look at those numbers incrementally?

**V. P. Nandakumar:** So, we hope the yield will remain at a range of 21% to 22%. So, we are able to get this effective growth of 10% to 12%.

**Aalok:** So, you are saying that to the 10%, 12% customer and AUM growth addition, we are not seeing any kind of pressure on the yield front?

**V. P. Nandakumar:** Yes. We hope we will be able to maintain this yield.

**Aalok:** And some light on the yields for the MFI portfolio?

**V. P. Nandakumar:** MFI portfolio, the yield is around 25%.

**Aalok:** Sir, is there too much to risk in that? When I look at your gold loan AUM and the gold tonnage, you know, it's kind of been kind of not going in the same thing. So, I am kind of trying to read too much into it or the tonnage contents will also improve as the new client get additions go through?

**V. P. Nandakumar:** No, see, when someone talked about competition from banks, what I hold is the banks' customers, their profile is different. They generally avail a very large ticket size loans, and they can wait for more time in the office for availing the loan, whereas our customers always look at the turnaround time of around 10 to 15 minutes. They are mostly wage earners, self-employed people etc., etc. So, these customers are not going to pawn brokers were going to pawn brokers, and that segment is very large even though it is not estimated.

It is a general assessment that the size would be at least 3x of the organic sector. So, you know, without presence etc., we will be able to be in a way of those customers. That is what we have been doing and there was some sluggishness because of this pandemic etc., etc. Now things are slowly coming back and with the growth protection, the economy etc., etc., we hope to maintain the growth at the level what I have told you.

**Moderator:** Thank you. The next question is from the line of Kushan Parikh from Morgan Stanley. Please go ahead.

**Kushan Parikh:** I had a couple of questions. So, the first question is around Asirvad MFI. So, I mean, we have had a good Y-o-Y, 40% plus Y-o-Y growth in the AUM in Asirvad, but Q-on-Q it was still flat. So, what is the growth guidance that we are looking at for the MFI business going forward? And also, I mean, we had a little bit of a Q-on-Q uptick in yield. So, we said that yields are currently around 25%. So, do we expect these yields in the Asirvad MFI business to sustain going forward as well? And if I could just ask one clarification question? The write-offs that we had in Asirvad business, could you just repeat that number?

**V. P. Nandakumar:** So, AUM growth expected is around 30%, 35% during the current year. So, there was some sluggishness because we had some concerns about the funding availability. So, we thought even though that has not happened, we actually resolved some cash liquidity with us. That is why it was locked down to some extent, but in the coming quarters we will be able to cover it.

The second part of the question is the yield, yes, this segment is not much concerned about the yield. The concern is the availability of service, how fast we can disburse the loan, etc. So, these issues are addressed with technology etc., which is on the improve also. So, the concerns about, we are able to achieve growth of around 30%, 35% with the yield of 25%. This is what we believe.

**Bindu A L:** Write-offs during the quarter was Rs. 57 crore.

**Kushan Parikh:** If I can just squeeze in a couple of more bookkeeping questions? What was the gold loan ticket size for this quarter, average ticket size, and the average tenure?

**Management:** Average you can say 58,000 and the tenure, it is nearly 90 days only. That is still continuing, average tenure.

**Kushan Parikh:** Sir, just trying to understand. I mean, would our growth have been benefited from this slightly longer tenure in gold loan?

**V. P. Nandakumar:** The average tenure remains around 90 to 100 days. There is no change in the tenure.

**Moderator:** Thank you. The next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

**Jigar Jani:** So, on the non-gold businesses, we have seen a spike Q-on-Q in GNPA for almost all non-gold businesses, the vehicle finance, personal loans, MSME or housing finance. So, any guidance on where you see these numbers settling for each of these businesses? Because these are like high growth businesses for us, the asset quality also seems to be deteriorating marginally on a Q-on-Q basis. So, any color on that?

**Bindu A L:** So, in this portfolio, there is a marginal increase only and you see March, there will be some extra effort to do that. It is only because of that only. It's a marginal increase only. We are not seeing any asset quality issues. It is a marginal increase during the quarter.

**Jigar Jani:** So, going forward, can we expect this to be range bound or probably decline in across this quarter?

**Bindu A L:** So, here and there it maybe 10, 20 basis points up and down. That is our expectation.

**V. P. Nandakumar:** From an average, it will be maintained and also we are making efforts to bring it down.

**Jigar Jani:** And the growth rates for these businesses would be sustainable at this 30% to 50% on an average because of their low bases at which they are at, right?

**V. P. Nandakumar:** See, we have a large customer base and we have not expanded to the base where we do gold loan. We are slowly expanding and in these sectors, the base is low. So, we hope we will be able to maintain around 35% to 40% growth annually.

**Moderator:** Thank you. We have a follow-up question from Abhijit Tibrewal from Motilal Oswal. Please go ahead.

**Abhijit Tibrewal:** Sir, this question is for Rajesh sir. I wanted to understand that during the call, you highlighted that the gold loan average tenure is remaining between those 90 to 100 days. Well, I mean, don't you think that given that earlier when we used to follow this three-month gold loans, we were always on that constant treadmill where loans either had to be renewed or ruled out, and I think sometime in the last earnings call, you were highlighting that the yield compression happened because we moved to six month gold loan tenure. Are you also evaluating 12-month gold loans, right? Because once we do that, I mean, loans will tend to stick around longer on your balance sheet rather than you having to spend so much time and energy on trying to renew or rollover those gold loans.

**V. P. Nandakumar:** See, tenure is not the reason for the average life. See, what we see from for the times in memorial is around 25% of the loans are closed during the first month of pledge itself, and another 20% loans closed in the preceding month, another 40% during the three months, but it is the culture being followed by these customers for a very long time. It is not because of the shorter tenure.

Even when the tenure was three months, you know, the auction takes place within six months only. So, it is not because of that. Even when we increase the life of the loan tenure to six months also, it remains like that. It is not because the tenure is shorter or longer. It is the nature of our customers because they are for this agriculture, for farming or for small businesses etc. They are conscious about redeeming the ornaments. So, as and when they get the money, they redeem, and then again come back. 80% of our customers are repeat customers. So, that is nature.

**Abhijit Tibrewal:** And sir, one last question from my side. I just wanted to understand how are we kind of now defining these online gold loan (OGLs)? Very clearly, if I look at the last four quarters, I mean, over the last year, right, the proportion of online gold loans that you report has moved up from 46% to 55%. If I look at the ticket sizes that you report in OGL, while ticket sizes at the overall level has gone up by about 4% Y-o-Y, it has gone up by 12% in OGL. So, how are we defining OGLs now? And essentially, why are we seeing such a sharp increase in ticket sizes? This is the blended ticket sizes.

**V. P. Nandakumar:** See, the ticket size, there is no much difference. See, the online gold loan actually increases the comfort level. They can operate from anywhere 24 hours. Other than that, there is no difference.

**Bindu A L:** But we are seeing a slightly higher ticket size for online gold loans since the beginning.

**Management:** There is a change in between also. Same thing only, but now the customer convenience is there. More and more online Google Pay, Paytm, everything we have a tie-up and the features we added in our app also. You can see that app rating also daily increasing. So, that's why more convenience we see the customers started using more and more on a daily basis.

**Abhijit Tibrewal:** So, sir, anything where the disbursement happens online is classified as an online gold loan?

**V. P. Nandakumar:** Yes. Online, into their account. There is an app, etc., and they can operate from anywhere inward and outward.

**Moderator:** Thank you. The next question is from the line of Manan Agrawal from Value Capital Partners. Please go ahead.

**Manan Agrawal:** I have two, three questions. So, first question is why is Asirvad Micro Finance's loan book flat Q-on-Q? Given the growth guidance that we have for the full year of 20% growth on the consolidated loan book, we see that in Q1, the Asirvad Micro Finance loan book is flat Q-on-Q, and what kind of sequential Q-on-Q growth do you look at internally while setting the target to deliver a Y-o-Y growth of 20% plus? That's question number one.

Question number two is, when are we coming up with the IPO for Asirvad Micro Finance business? That's question number two.

And question number three is with regards to this show cause notice issued by RBI. So, what is, briefly, if you could explain, what is that? And what kind of reply have we given to RBI? Because I couldn't see that reply in the exchange filings.

And question number four is with regards to the ongoing ED investigation. So, if you could tell us where at what stage is it right now? So, those would be the four questions.

**V. P. Nandakumar:** So, Asirvad growth, the last quarter, we served some liquidity for some time anticipating some liquidity problem which has not actually happened. So, around 1.5 months we slowed down on disbursals. That is the reason why, but we are making it up in the coming quarters, and our expected growth of around 25%, 30% we will be able to achieve as far as Asirvad is concerned.

The second is, yes, the ED investigation as intimated earlier, the FIR has been quashed. So, the predicate crime is gone. So, when the predicate crime is gone, as per the rules, as per the law, the secondary investigation that is ECA are also should go. There are several pronouncements by the Apex Court. So, we are in the process of getting the second part also quashed, which may happen within 10 days. That is what we believe. So, as the FIR is quashed, the major issue is gone. The other one is only a procedure.

Regarding the show cause notice, Bindu, yes.

**Bindu A L:** So, this show cause is on account of the pending option surplus. So, we reply to them giving the additional measures which we have taken to reduce this. Sometime back it was almost 53 crore, and now we reached around 37 crore now. So, we will continue our effort, and we are using technology also to identify these customers. Out of this 37 crore, a large chunk of the amount relating to the period before 2018. So, there are some practical difficulties to find out and the average amount also very less only. So, in all cases, we will send the registered check to the customers, but in many cases, if it is a small amount, these customers are not encashing the checks. So, we are following up with these customers to encash the check. So, a lot of effort is going on. So, we believe that we should be able to reduce this. That is how we replied to RBI.

**Manan Agrawal:** And when are we coming up with the IPO for Asirvad Micro Finance?

**V. P. Nandakumar:** So, Asirvad definitely need capital for growth. From the promoter side, we don't want to sell any stake. So, we will retain our stake there. At the same time for growth capital, we need to raise money. We have not finally decided whether to go for an IPO or raise money from a private equity side etc., etc. So, discussions are going on, but yes, no decision has been taken by the Board.

**Manan Agrawal:** And if I could squeeze in one more question, please? So, looking at the future, we have set the target loan book at 50-50, so basically increasing the non-gold portion. So, if I look at the future,

the loan growth, whatever that will happen, so would we be increasing our yields in line with the increase in cost of borrowing that will happen in the future? So, would it be fair to assume that the net interest income growth rate would exceed the loan book growth rate, whatever you will deliver in the future?

**V. P. Nandakumar:** See, the gold loan, we have the ROA and the other businesses also are improving their ROA because the growth is happening. The per employee business is increasing. So, on average, we are hopeful of maintaining an ROA of nearly 5%.

**Manan Agrawal:** Of the net interest income growth, would that exceed the loan book growth?

**V. P. Nandakumar:** Net interest, yes.

**Bindu A L:** It's in line with the growth only.

**V. P. Nandakumar:** Yes, with growth only.

**Moderator:** Thank you. The next question is from the line of Pranay Khandelwal from Alpha Invesco. Please go ahead.

**Pranay Khandelwal:** I wanted to ask about your opinions about this new initiatives that the government is taking with regards to open credit enableness, I mean, enablement network, and how may that affect our business going forward?

**V. P. Nandakumar:** So, we have to analyze that, but see, what I can say is, see, we are doing business at the bottom of the pyramid. So, in this area, there will not be any negative impact. The technology etc., etc., financial inclusion, we are on the inclusion side. It's possible and the rural India is also growing. So, I think with the newer technology solutions etc., we are going to be benefited.

**Pranay Khandelwal:** So, we do not see this as a threat for the next 5, 10 years or anything like that.

**V. P. Nandakumar:** Yes.

**Pranay Khandelwal:** And I also wanted to ask about any updates on the approval of branch expansion by RBI?

**V. P. Nandakumar:** So, see, at a consolidated level, we have added around 520 gold loan branches. So, that takes care of our expansion needs. To your specific question of getting branch expansion in Manappuram Finance, yes, we are yet to get. But at the consolidated level, we are able to.

**Pranay Khandelwal:** Hasn't it been a very long time since we have gone to offering? I think we applied for it in 2020 or '21.

**V. P. Nandakumar:** See, the challenge here is the surplus in gold loan, yes. So, we have done a few things to ensure that the surplus is not increased. So, the surplus has gone to a level of 52 crores. Now it has come

to 36 crores. So, progress is being made, and the RBI is being informed about that. And I hope that will take care of the RBI requirement.

**Moderator:** Thank you. The next question is from the line of Nikhil Agarwal from VT Capital. Please go ahead.

**Nikhil Agarwal:** One question on cost of borrowing. One follow-up there. There is one confusion. So, 20 bps increase came from gold loan standalone work and around if I am not wrong, 60 to 70, 50 bps, around 50 bps came from MFI book and blended cost of borrowing increased by 62 bps. So, you said that 20 bps is expected again in the standalone business this quarter. Could you give the same expectation for MFI as well? Because since the reset calls 50 bps, will it again happen in this quarter? And also, just relating to this question, if yields are maintained at 21% to 22%, and an incremental borrowing is 20 bps higher, am I wrong when I say that we will not be able to maintain such margins or it will dip a bit in the coming quarter?

**V. P. Nandakumar:** See, the coming quarters, now the increase in the CRR etc., etc., so all will depend on the government's policy. But what I can say is the sectors we are in, the small ticket gold loans that is around 50,000, Micro Finance or a small ticket vehicle finance which are mostly used cars or MSME where the average ticket size is around 60,000-odd. Passing on this 20 bps or 30 bps may not be difficult. So, what I say is the other one all depends on the external conditions, but internally we are hopeful of maintaining the NIM.

**Nikhil Agarwal:** And the increase in cost of borrowing from MFI book, what do we expect? Do we expect the same 50 bps increase this quarter or is it lesser?

**V. P. Nandakumar:** No, because see, this quarter, it may remain at this level. There are reasons also. It is a PSL and the banks are vying with each other to grab this PSL. So, there is no reason why it should go up.

**Nikhil Agarwal:** And the reset entirely we have seen. Are we seeing the entire reset in borrowing in this book?

**V. P. Nandakumar:** See, these are by way of direct assignment etc. So, there is a good demand, this is a half year. So, the demand for this PSL will be more.

**Nikhil Agarwal:** So, just on the cost of fund side, this will remain at the same level and overall book, even if there is a 20 to 30 basis increase, the pass on will be easier given our target segments. Am I correct when I summarize it?

**V. P. Nandakumar:** Yes, see, this is not predictable because it all depends on the government's policies, inflation, etc., etc. Today also, you have seen the increase in the CRR etc. But what I said is, what is most important for us is to maintain profitability. That would be maintained.

**Nikhil Agarwal:** Another question about the cash credit that you mentioned. So, some while back when someone asked about the impact of such ED and everything, if it's over and if you are getting bank lends and other sanctions, so there was a liquidity crunch because of which this quarter the MFI growth

quarter-on-quarter was not very great, and going forward we are seeing sanctions coming from banks now that everything is over. Is that correct? Or can we see any other cash crunch?

**V. P. Nandakumar:** No, you will have new clarity. See, regarding ED case, the predicate crime is gone. FIR is quashed by the police. Police have referred the case. So, automatically the ED investigation will go. It has gone, and we got a full stay also. In the meantime, the quashing efforts are going on. We hope that the quashing will happen in another fortnight. Yes, it is coming to almost a close, but with the FIR closing and all, the bank funding has considerably improved.

Yes, last quarter Asirvad didn't face because of the, for want of sanctions, but we reserved some liquidity, anticipating some liquidity crunch. Actually, this has not happened. So, now it had happened in the full swing or other businesses in the standalone, these were not affected because of that. Yes, only in Asirvad this has been done as a precaution and not anything else. Now we are able to get enough sanctions from the banking system. So, liquidity would not be a concern going forward.

**Nikhil Agarwal:** And just one last thing. Just one clarification. Some while back you mentioned that the surplus was 52 crores. It has come down to 36 crores. What was that about, if you could just clarify it for me?

**Bindu A L:** So, auction surplus in the case of the delinquent customers for gold loan, we will recover the money through auction, and we will adjust the receivable. Balance we will be reimbursing to the customer. Within 15 to 20 days, we have to pay back to the borrowers. So, this 36 crore is the accumulated amount over 14 years. The surplus generated may be over this 14 years, it may be some 300 crores, out of which 36 crore is pending. The average amount is very small, and there may be customers migrating and they may not be encashing the check. So, this is the reason for the unpaid amount of Rs. 36 crore.

**V. P. Nandakumar:** This has been accumulated for years together, not in recent years. This is all in the extra account.

**Nikhil Agarwal:** And will we be able to increase our tonnage from here? What is the view there?

**V. P. Nandakumar:** See, when the gold price goes up, the tonnage comes down because the people will get money with their reduced quantity, but when the gold price goes down, the tonnage goes up. This is usual.

**Moderator:** Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

**Dhaval Gada:** Sir, couple of questions. The first is relating to OPEX growth both in the standalone entity and in Asirvad. What is your expectation in the current year on OPEX growth? And the second question is relating to what quantum of tonnage was released in the current quarter? And if you have, you know, some sort of ballpark number for same time last year?

**V. P. Nandakumar:** See, the OPEX is slightly at a higher level because of the slight increase in the credit cost. But going forward, it will come down. The business is stabilizing. So, it will come down. Regarding the tonnage...

**Bindu A L:** What is the question? Release of tonnage?

**V. P. Nandakumar:** Tonnage.

**Management:** Amount we already told. That is the transactions were happening in the....

**Dhaval Gada:** It is more looking at the tonnage, like how much volume has gone basically in the current quarter and same time last year 1Q '23? Just to get a reference how much is the delta change.

**Management:** We will come back to you soon.

**V. P. Nandakumar:** Yes, tonnage movement, right?

**Dhaval Gada:** And sir, on the first question of OPEX growth, so the full year...

**V. P. Nandakumar:** It will come down. It will come down going forward.

**V. P. Nandakumar:** As a percentage of AUM, it should come down.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand over to the management for closing comments.

**V. P. Nandakumar:** So, thank you for the good participation. We hope that we have answered the queries to the satisfaction of all. And we definitely are available for offline and online meetings. Thank you so much.

**Bindu A L:** Thank you.

**Moderator:** Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.