



# “Manappuram Finance Limited Q3 Financial Year 2015 Earnings Conference Call”

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*Manappuram Finance Limited*  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Manappuram Finance Limited Q3 FY'15 Earnings Conference Call hosted by ICICI Securities 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 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 Mr. Yash Modi from ICICI Securities. Thank you and over to you Mr. Modi!

**Yash Modi:** Good morning everyone, on behalf of ICICI securities I take great pleasure and having with us here today Mr. V.P. Nandakumar, MD & CEO and Mr. Kapil Krishan, CFO of Manappuram Finance. They are here to discuss with you the company's performance in Q3 FY 2015 and the business outlook going forward. We will have a Q&A session post the opening remarks. Without much further do let me hand the floor over to our honest guest from Manappuram Finance. Over to you gentlemen!

**Kapil Krishan:** Thank you Yash. Ladies and gentlemen welcome to the conference call to discussion Manappuram Finance Performance for the quarter ended December 31, 2014. For the quarter our total income from operations was Rs.515.7 Crores compared with 502.8 Crores in the second quarter and a sequential increase of 2.6%.

The closing AUM as of December 2014 went up 3.4% QoQ that is Rs.293 Crores to Rs.8823 Crores. The average AUM during the quarter was Rs.8655 Crores an increase of 4.8% that is 397 Crores QoQ. Auctions during the quarter were Rs.175 Crores and we had a new book of Rs.468 Crores. New book in the nine months of FY15 was Rs.1623 Crores compared with 494 Crores in the whole of FY14 this shows that growth is back for us now and has been sustaining for the last three quarters.

Our weighted average LTV was now 69% compared to 70% in the previous quarter. Our ROA for the quarter was 3.14% and the spread was 13.38%. Disbursements continue to be strong during the quarter at Rs.5966 Crores compared to 5835 Crores in Q2. The home loans and commercial vehicle

businesses have commence disbursements though only towards the end of the quarter.

We added 2.43 lakhs new customers during the quarter the total number of live customers was 16.8 lakhs as of December 31, 2014 a 4.6% increase QoQ. Our gold loan holding also increased by 5% to 50.23 tonnes; our sustained marketing efforts at the ground level in the branches have resulted in the above volume growth figures indicating the revival in our business. Finance cost during the quarter increased by Rs.226 Crores and our average cost of borrowings during the quarter was 12.2% a decline of 19 basis points QoQ and 77 basis points year-on-year.

Benefits of the cut in the base rate by banks the, which would be passed on would also accelerate our decline in the cost of funds in the coming quarters. Our employee cost increased by 7.8% QoQ to Rs.78.67 Crores the increase was mainly due to higher incentives that we gave to our branch personal and the increase in the base for the provident fund calculation. Other administrative expenses decreased by 1.6% to 74.62 Crores. These savings were largely due to our sustained cost cutting efforts.

Depreciation cost decreased by Rs.0.78 Crores QoQ. The overall number of branches was stable at 3293 we are in an advance stage of relocating about 100 branches to higher potential areas. This will further improve our business efficiency in the coming quarters.

Provisions and write-off during the quarter were Rs.1.08 Crores our gross NPAs decreased to 1% of AUM from 2% in Q2 FY15. Gross NPAs decreased due to our focused effort to close over due loans. Around half our NPAs relate to accounts that are regularly servicing interest those loans have not been fully closed. Therefore the real gross NPAs are half of the reported numbers.

Loss assets due to theft, spurious gold etc., account for 0.09% of AUM this shows the robustness of our internal risk management systems. Profit after tax increased by 5.5% QoQ to Rs.8.64 Crores. The resulted EPS for the quarter was Rs.0.96. The company's net worth stood at 2603 Crores as of the quarter end, our book value per share was Rs.30.95, and capital adequacy was 26.94%, our total borrowings stood at 7652 Crores from around 35 banks. With this summary of the

financials I would request our Managing Director and CEO, Mr. V.P. Nandakumar, to share his perspective on the macro environment and the industry and the business.

**V.P. Nandakumar:** Thank you Mr. Kapil. Thank you all for joining us in the conference call of Manappuram Finance Limited to discuss our Q3 Results. I will begin with a quick word about macroeconomic developments of relevance to us.

Since our last con call in November so the most important development was the surprised announcement by RBI on January 15, 2015 cutting the repo rate by 50 basis points. We believe signal and ask me that reversal of the RBIs monetary policy stand and we expect more significant steps to follow later in the year.

Inflation has moderated and the fall in global crude oil prices has helped in containing both the current account and fiscal deficits, if these funds sustained it will help us in slaving interest rates further. The continued improvement in overall environment for business has been positive for us to, in the last con call I have suggested that what was then seen as signs of a turnaround would save into a full-fledged recovery as a matter of that our performance during the last quarter confirms that the trend is here to say our loan book has shown further growth and disbursement plus new customer acquisition continue to pickup it.

The reason stability in gold prices has also helped at the ground level, our efforts are on regular and timely collection of interest is showing result. The resort to auctions has come down putting into all together we are now in a position where we can sustains moderate growth of business before I open to call for questions.

Let me make it mention about our stand on the small finance bank, and payment bank licenses to be issued by the RBI ideally India is established NBFCs including Manappuram should be making beeline to the RBI for this opportunity to convert themselves into banks, however that has not apparently been the case.

From our point of view the major sticking point was the people have been got heavily 75% of the loan given should be a priority sector lending. To meet this requirement we would have to shrink our loan for full year significantly and our assets would necessarily be shifted out of gold loans to areas like agriculture, small businesses etc.

Consequently the business levels would have fallen drastically in the initial years affecting the ROA and ROI. A significant percentage of business would have start to be closed up branches would have to be closed up. Therefore we have decided that is advisable to utilize the existing branch network to diversify the portfolio first before considering a conversion as small finance bank. In this context in the last con call I had talked that links about our plans to end up into housing finance, vehicle fiancé, loans against property etc.

I confirm that to be around the track with our plans. We are happy to report that the leadership team is in place in each of these businesses we have started disbursements in these areas and expect the new business has to make substantial contribution from the next fiscal year onwards. Once the initial systems and this processes are well established growth at the healthy base should be within our speech more over our acquisition of Asirvad Microfinance Private Limited we has been announced earlier in October 2014, is also in an advance stage of completion. Thank you very much. Now the floor is open to questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Digant Haria from Antique. Please go ahead.

**Digant Haria:** I have a couple of questions. Sir firstly what was the auction for this quarter.

**Kapil Krishan:** It was 175 Crores.

**Digant Haria:** So that is substantially lower than what it was in the last two, three quarters so is it fair to assume that this will be the normal run rate going ahead or this number can further come down in the coming quarters.

**Kapil Krishan:** See auction per se is maybe there in future also but the main point to notice that as you know we have focusing more on shorter tenure loans where the likelihood of the loan going out of money is absolutely negligible. So though we may have to auction say would be a surplus and we may not lose money at the time of auction.

**Digant Haria:** And if you can just throw some light on what are the branch level effort is that we are taking second what are the employee level efforts we are taking because when I look at the other players in the gold loan space lot of players have been facing some kind of pressure in terms of growth but we have shown very good growth in

terms of customer acquisition or the gold stock and reposition and AUM but others have not been able to match up pay so if you can just highlight like what are the thing which are working in our favors.

**V.P. Nandakumar:** We are making lot of efforts for customer acquisition and it is picking up incentivising employees etc., and one thing one advantage we have is the caressing of the old book the high risk portfolio etc., has stopped at one and a half years back and in our cases we have seen the almost end of that. Now we have already mentioned the average LTV today is around 59% which is down by 1% from previous quarter so this will again come down to a level of around 55% - 56% over a period of time, because we wanted to reduce the risk of the price risk to a great texture so this is what our expectation. When these are there the scope for and we have launched a three month product, six month product etc., the advantage for the company this short-term loans is as the loan maybe maturing in three months and we give another three months and intimate the party to remit interest regularly the remit interest after of these loans with this the encouragement and incentive wise session most employees and customers our recovery is better our interest recovery is better compared to many players in the gold loan business all these help us in growing the book because the portfolio depletion because that auction will come down and the customers tendency to ditch the loan will be when the payables are more than the market price, when the payable their payables are less than the market price their tendency will be to come and predict, this also what do they do it is a situation if they are not able to redeem it they come and make the full payment of interest the mark-to-market and perhaps the redeem which we are not re-pledge as it the first loan that is our current LTV. These changes may be helping us in increasing our collateral etc., which will help us in growth going forward.

**Kapil Krishan:** Digant, just to add at the ground level the various campaigns and activities that we do include where the branches are in the rural areas so we go out and have a loud speaker kind of campaign then we have people going on by with caps and T-shirts and talking about our loans and also incentivising our staff so these are some of the highlights of the efforts that we took which have resulted in the growth.

**Digant Haria:** So which means that this is the first time that we are going outside branches and probably trying to get some kind of loan growth and incentivising employees also

so would it also be right to assume that employee cost will remain at current levels or maybe increase slightly and we need a little more growth to compensate for these increasing operating cost.

**Kapil Krishan:** No Digant if you see the operating the administrative cost have gone down the staff cost went had just about a 2 Crores impact of the higher incentive but the benefit that we got out of that in terms of collection and growth is far greater and as you know financial services generally has to be sold so what is wrong if gold loan also needs to, we need to go out and have some customers.

**Digant Haria:** So Sir would it not be better to maybe spend a little more and do this across the pan India level and then may be two quarters like that we get rewarded with much higher loan book growth.

**Kapil Krishan:** No we are doing it on a ongoing basis and we are directing our incentives to the areas where we want result suppose we have to improve our collections then that is where we direct the staff incentives or if we are looking for a loan growth so that is the way we are doing it and it is giving the results straight away it does not result in a delayed kind of benefit.

**Digant Haria:** So lastly just two data points what is the accrued interest amount and what is it percentage of our portfolio which is below 1 lakh in ticket size.

**Kapil Krishan:** So 585 is the accrued interest as of the quarter end and below 1 lakh is 87% number of customer.

**Digant Haria:** And in terms of quantum of loans that would be.

**Kapil Krishan:** It would be around half.

**Digant Haria:** Okay alright thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Rahul Sony from Baljit Securities. Please go ahead.

**Rahul Sony:** Sir one question, in our opening remarks you said that your cost of fund will decline in coming quarter so can you elaborate the same.

**Kapil Krishan:** See the cost of funds has already come down year-on-year by 77 basis points and sequentially also 20 basis points the average was 12.2% and incrementally we are borrowing today at around 11% and we are borrowing CP at below 9%, 8.8% was the last round we did so as and when we renew our liabilities the cost of funds is continuing to come down every quarter and the effect of base rate cut has still not come just about two banks have passed on the base rate so when that comes that will also further accelerate the decline in cost trend.

**Rahul Sony:** So this was the main reason for the raise in the NI despite decrease in interest income.

**Kapil Krishan:** Yes that is right.

**Rahul Sony:** And second question what was the performance of your other business, other than this gold loan business.

**Kapil Krishan:** See the other businesses we are in the process of setting up other team so we have already set up the leadership team and we have taken people who have got extensive experience in the relevant industry, the systems and processes have also been set up during this quarter and towards the end of the quarter we have started disbursing but the numbers are very small right now. So it is not made any significant contribution to the overall numbers, but we have spending the time to setup the team and the systems and processes, this is mostly achieved this is for the home loan and the commercial vehicle so microfinance business as our MD mentioned is very advance stage of completion there we are taking over an existing microfinance company based in Chennai and with a seven year track record so they already have a established experienced team and that acquisition we expect to come now very soon.

**Rahul Sony:** Okay thank you sir.

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

**Pankaj Agarwal:** These two businesses housing finance and vehicle finance what kind of operating expenses you are incurring at present and going forward in next 12 to 24 months

what kind of ROA, ROE and loan book you are expecting from these two businesses.

**Kapil Krishan:** So far this quarter we just had around 30 – 40 lakhs of staff cost and other cost put together for the home loan and commercial vehicle and for FY16 also we do not expect much positive contribution to the bottom line because as you know it takes most companies three years to breakeven but because we are going to leverage our strength of having brand name, having a customer base, having good relationship with the banks, we expect to cut short that breakeven period to two years, so in FY17 we would definitely look forward to positive contribution to the bottom-line as well.

**Pankaj Agarwal:** So operations have started have you built any loan book at this point of time or it is...

**Kapil Krishan:** We have built at 1 or 2 Crores in commercial vehicles and home loan just had its first disbursement so as I mentioned it is very small numbers right now but they will scale up as we go forward.

**Pankaj Agarwal:** And in terms of your rational behind not applying for small bank license so it was purely because you were not meeting that 75% PSL criteria or there were some other considerations as well.

**Kapil Krishan:** No see we went through the detailed calculation we also worked with one of the big four consultants to help us go through the whole process and the overall evaluation was that as you rightly said the main dampener was that 75% PSL would have to be maintain at the closing of the first annual report and we had some 18 months initial time to kind of convert after getting the license so when we saw that our total loan book maybe just about a third may have qualified for the PSL requirement and then to shrink the balance sheet and then grow it again we felt was something that our shareholders may not really like. So you are right the biggest dampener was the PSL.

**Pankaj Agarwal:** And any plans of going for banking correspondence model one of your competitors have become may be see for a bank so you are thinking on those lines or...

**Kapil Krishan:** See we are definitely, I would not say that is a focus area we are focusing on increasing our credit book right now at the same time we are also talking with some banks and being in touch with them as well. So the focus is growing our loan book we may announce the tie-up but that would be incidental to the main business.

**Pankaj Agarwal:** Okay thank you sir thank you very much.

**Moderator:** Thank you. The next question is from the line of Parag Thakkar from HDFC Securities. Please go ahead.

**Parag Thakkar:** Congratulations for great set of numbers my basic question is sir see right now after the January we have seen as you rightly said a stabilization of gold prices so do you feel, because last year your Q4 was weak number around 40 Crores PAT and this year now well the gold prices have stabilized then you are also seeing some recovery in terms of demand and in terms of collections getting improving and auctions getting lesser so what is your outlook on Q4 based on the gold prices right now.

**Kapil Krishan:** As you know we do not put out formal guidance but definitely on a year-on-year basis we would definitely look forward to substantially improve Q4 and as you also pointed out the gold prices are also healthy right now and the shorter tenure product that we have launched would dealing cast to the gold price going forward, but as you mentioned the shorter tenure product was launched in end of Q1 of FY15 so we would be using the next couple of quarters to completely closed our earlier book. So after that book is over we would be mostly dealing from the gold price as well.

**Parag Thakkar:** So that will happen by what time you said.

**Kapil Krishan:** See they were launched in Q1 and since Q1 we had the older 12 month product so that would be the timeframe.

**Parag Thakkar:** And sir so basically when we are trying to build these three new businesses what is your outlook on the Opex part because as you said that contribution to the bottom line next year will be minimal but are you confident that there will be no big losses at least in terms of because of the Opex you are doing.

**Kapil Krishan:** See the microfinance business is already profitable so if we add microfinance and the other two businesses there would not be any substantial hit on the bottom-line and the gold loan business is also growing so as a percentage it would really be negligible for FY16 as well.

**Parag Thakkar:** And sir as you rightly said that borrowing cost is continuously going down every quarter and which this is the fair expectation that it will continue to do so. So on yield on advances so one of your competitor has guided that there is a lot of competition on the ground so on yield on advances say right now is around 23.45% so what is your outlook on that, whether you will be totally passing on your benefit which you are getting from the lower borrowing cost.

**Kapil Krishan:** See the lending rate is not link to the borrowing rate because these are small ticket loans and that is our focus on the small ticket and the retail loans. So in terms of the yield as you have seen we have maintained it despite competition in fact our experience is lot of competition is actually and we are seeing a shakeout in the competition as of now, some of our competitors have announced exiting this business because they could not manage the operating expenses and because of our scale and focus it is doing very well for us but it may not have done very well for some of the competitors so on the ground as you have seen the results, we have been able to maintain the yield in the past few quarters.

**Parag Thakkar:** And sir last question, what I the broader vision that over next three years what should be our gold loan book and what should be our each of this microfinance housing and commercial vehicle loan book look like and what is the expected ROA levels also from gold loan fair on 3% to 3.5% but what is your expected arrow in the other three businesses and what should be the total loan book size over next three years.

**Kapil Krishan:** Overall we expect new businesses in the end of next three years in FY18 it should continue around 20% to 25% of the loan book and in terms of ROA the gold loan has been study at 3% ROA which is very healthy as you will agree the micro finance is slightly higher ROA business it can easily achieve 4% ROA and the commercial vehicle and the home loan business may be lower ROA but it helped us to diversify our book and overall blended we expect the average to be maintained.

- Parag Thakkar:** At around 3%.
- Kapil Krishan:** Yes we are targeting to maintain that.
- Parag Thakkar:** And what should be the loan book right now say around it is closer to 9000 Crores. So what should be the loan book over next three years in your view?
- Kapil Krishan:** See in the next three years it can easily be at least 12000 Crores minimum.
- Parag Thakkar:** So just 9000 Crores to 12000 Crores so we will add just 1000 Crores every year.
- Kapil Krishan:** See 1000 Crores in the gold loan plus the other new businesses can also add at least 2000 Crores so gold loan will be 12000 and total can be around 14000.
- Parag Thakkar:** Okay great sir, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Gokul Maheshwari from Allard Partners. Please go ahead.
- Gokul Maheshwari:** My question is that how are the customers responding to the three month product has there been any feedback from them from transition from the one year product and the three month product.
- V.P. Nandakumar:** See in the case of gold loan even if the loan is for a period of one year around the 65% of these are getting to close within three four months time so what we insist upon is to request the customer or motivate the customer is to remit interest at timely there. So for such it present yes, even within three months or four months even the product is for three months yes we use to give them another 90 days to come and settle or remit interest purely etc. So effectively he gets around six months, within the six months he can come in remit interest then he can mark-to-market the LTV and repledge it so he can prolong the loan for a longer duration only this is since is a timely remittance of interest I do not think the customers are going to be within difficulty because of that, because this actually helped us. Another good thing what we have introduced in the recent past is online payment facility the customer can remit interest on power payment sitting at his home at 24 hours 365 days this is a very convenient facility for the customer. So the customer does not feel any disrupts if otherwise what happened is if we are not remaining him or if we are not putting some mild pressure on him these customers tend to

defer the payment of interest or this thing, ultimately the situation goes to a stage where the total accrued interest and principle may not be affordable to him then the tendency will be to ditch the many of these customers actually tell us here the short-term facility is better than one year because so here the main thing is we do not have any problem so I do not think the customers will feel any difficulty in this short-term product.

**Gokul Maheshwari:** The other one is on competition in the southern markets apart from NBFCs how are you seeing the competitive environment in terms of presence and in terms of also the pricing of the product.

**V.P. Nandakumar:** See we do not plan to compromise on pricing in near future. Yes in the southern market greater competition is there but we have identified it locations in northeastern part and central India where we have a good potential for growth what we are trying to do is what we are doing now merging these branches some of these branches in the south and obtaining these opening more branches in places like central India and other northeastern part of India where there is less competition. This way we feel like we will be able to curtail competition without compromising on the yield in the coming two three years.

**Gokul Maheshwari:** But my question was more is it there in the south markets the banks are doing this business much more efficiently now and the USP of the NBFCs are providing quick loans in a quick time is that actually getting competed away.

**V.P. Nandakumar:** See the advantage of NBFCs is the availability the bank maybe available from 10 o'clock to 2 o'clock and Saturday is normally the banks would not take these loans most of the competition is from the public sector banks in the south. So whereas the NBFCs they are available all the six days a week that also for eight hours from 9 to 6 o'clock also the continuous service is also there. So the advantage of a pawnbroker risk is available is the cost maybe high, the advantage of a bank is lower interest rate but availability is less however all is in between compared to the pawnbroker whether rated transparently but we are still available so the risk rate of credibility and compared to banks our interest maybe slightly higher but much, much less than a pawnbroker this is where we find a place.

**Gokul Maheshwari:** And do you see customers moving away from gold loan because when I see one of couple may just a statement of achieving 12000 Crores of AUM he core gold loan

business your previous speak was at 2012 or maybe December 2011 when you achieve 12300 odd Crores of AUMs achieving there in three years that maybe a very conservative guidance.

**V.P. Nandakumar:** It is a conservative guidance see the customers I do not think the customers are moving away from gold loans, the annual import to the country is around 1000 tonnes tenure if that is the case yes this is going on this is to increasing year-on-year if that is the case the market is going to broadly it is not going to come down now the difference between the past and now is this as we mentioned in our discussion our average LTV now is around 69% which was around 75% or nearly 80% in the past so the gold price also has come down all these are adjusted that is why we are presenting before these are very conservative figure we hope to achieve better.

**Gokul Maheshwari:** Okay thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Piyush Chadha from Ocean Dial. Please go ahead.

**Piyush Chadha:** A very short question our net interest income was pretty much flat as compared to last quarter due to a drop in yield in this quarter, is this a trend that we expect to see continuously continue going forward, that yields keep dropping and the net interest income is flatish or we expect net interest income to start picking up now.

**Kapil Krishan:** See as our shorter tenure products become our total portfolio we will earn our full interest so that is when the net interest income will raise much faster.

**Piyush Chadha:** Sorry I did not completely understand that is that a process we would expect to see in the fourth quarter of this financial year.

**Kapil Krishan:** No, see as we discussed the shorter tenure products were launched in Q1 of this financial year and before that we had a 12 month product so once the earlier 12 month products are fully out of our book and once we have got only shorter tenure product then our yield will be also improve and that yield will improve.

**Piyush Chadha:** I see, and that is the process to be completed by the first quarter of FY16.

**Kapil Krishan:** Yes by Q4 of this year and little bit of Q1 of next year.

**Piyush Chadha:** How much of the current book would be the shorter term product and how much is the 12 months product.

**Kapil Krishan:** It is almost 60-40 as of now shorter tenure is around 60%.

**Piyush Chadha:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Pankaj Chopra from Shanti Asset Management. Please go ahead.

**Pankaj Chopra:** I would want to understand just taking the previous question on this shorter tenure you are saying is more profitable but would it not also mean that the borrow would evaluate against competition as to what their products are and what kind of yields what kind of fees you would charge for initiating the loan how would that competitively.

**V.P. Nandakumar:** I mentioned earlier also whether it is one year or three months what happens that a 70% of the loan the normal course is getting redeemed in a period of six months back. So for the customer for 75% of the customers whether it is a short-term or otherwise it does not make any difference so those who wanted to avail for a longer tenure or there is no issue here also they can avail they can continue to availing the loans of the same loan can be maintain for one year two year etc., what we are do is the customer is remit interest regularly if you want to continue for a longer duration within the loan duration or within the next 90 days you remit interest in whole and mark-to-market and allow him to repledge it as a new pledge. So for the customer it does not make any difference many of the customers telling that this is very convenient to them because there is a pressure there is an internal pressure for them to remit interest. Otherwise the things are going out of their control because their liability by this principal along their crude interest their capacity to remit that goes out of emphasize. So this is convenient for most of the customers and we have analyst that our auction may come down so much because of this.

**Pankaj Chopra:** So essentially it is just that it makes more convenient to you and that is largely the objective is that it.

**V.P. Nandakumar:** Not only convenient, it does not make any convenience to a customer.

**Pankaj Chopra:** So may I ask why was not this product taken up earlier you were the one year high rates created its own pain for the company was there something which we were missing in the three month product earlier.

**V.P. Nandakumar:** It was not like that we had this three month and six months product at ten years back then what has happened is from 2007 onwards we have seen the gold price sturdily increasing so since there was a comfortable collateral coverage that we had decided is not to auction and retain these loans for a longer duration etc., so this was what was happening in the past so we have the experience of this product that is why we thought we will reintroduce that now.

**Pankaj Chopra:** Sir now to a more macro kind of question sir what are the demand driver for a product like yours we are talking about not too strong growth now although what I have seen is your that the indication I think is very positive is that the gold stock has now move to 50 tonnes plus which is positive that you are back on the good growth path but it use to be at least it use to be 70 now why cannot we reach them which is a 40% it is 40% higher than what it is currently and now we are talking about an increment 10% - 15% increase in terms of the book size which is not does not seem to be very exciting.

**V.P. Nandakumar:** What we believe is whatever is projected shall be achieved so we are bit conservative as far as the projection is concerned. So if the macroeconomic conditions are improving too early our growth rate will be much, much high anyway what we have produced we will be able to comfortable achieved.

**Pankaj Chopra:** So what you are saying is a conservative guidance but the demand drivers within the industry are they I would assume that when the economy is not doing too well maybe the demand increases then so I am surprise that your answer when you say that economy does well then there is more demand.

**V.P. Nandakumar:** See the demand for credit whether the gold loan or otherwise all goes well with a positive macroeconomic factor you agree with that.

**Pankaj Chopra:** Yes sure of course for normal business.

**V.P. Nandakumar:** That is the case whether this gold loan or otherwise the demand will increase with a positive signs in the economy.

**Kapil Krishan:** See plus Pankaj what had happened earlier there was very rapid growth and LTVs had gone to unhealthy level. So I am sure any investor would prefer a better growth maybe slightly lower growth rate but a healthier balance sheet.

**Pankaj Chopra:** Perfectly I agree with you completely, is it that the opportunity for to move back to 70 tonnes would we are talking about a lot more periods, were although if your systems are set and your processes are in place moving getting a higher growth in a business like this where I am just getting a thought to my mind you have the most secured business to do because you are completely secured with an underlying asset which is so liquid. So growing fast in a, is it because of demand or is it the conscious decision that you are saying that we will grow slow, that is my question really.

**Kapil Krishan:** If you see actually we have grown last three quarters at almost 5% sequentially also it is just that we want to not over project and then under achieve we want to make sure that we have sensible growth now rather than growth at any cost so that is our focus basically.

**Pankaj Chopra:** So essentially you are not worried about demand it is your calibrated growth that is what you are saying.

**Kapil Krishan:** It is a numbers that are seeking for themselves you see the growth in the last few quarters number of new customers is also going up almost 4% to 5% every quarter. So that cleared the disbursements are up the gold holding is up again and the as I mentioned the new book in FY15 nine months is 1623 Crores compared to 494 Crores in the whole of FY14 so it is almost 3x in nine months so that is proof of the growth actually.

**Pankaj Chopra:** The worrying part is because one tends to, you said the diversification and etc., but if this business is so good the reason to diversify is something which I miss nevertheless the my final question is how do you see the impact of this Jan Dhan Yojana people getting bank accounts does it change the economic or dynamic for you in the segment you work with.

**V.P. Nandakumar:** These are positive things for us also the advantage is most of our customers may have bank account so for servicing these customers we have this online payment facility which is available 24 hours they can use this, this will help us in

maintaining our portfolio healthy regarding the diversification see it is an universally expected fact that simple product is always the riskier see the gold price we are also sure that we feel like comfortable at the current gold price level but see that can be dramatic changes can be of where the prices come down so what we intent as a business idea as one to reduce the gold to around or even 50% and grow the other portfolio is reduced and we may not be actually reducing that but this may be growing but the other portfolio will outgrow this so that over a period of time when we become the 20000 Crores or 25000 Crores around 60% will be gold loan the other will be from other lines of business like Micro Finance, Home Loan, loans against property , Vehicle Loans etc.

**Pankaj Chopra:** Okay sure anyway all the best thank you very much.

**Moderator:** Thank you. The next question is from the line of Manish Chaudhary from IDFC Securities. Please go ahead.

**Manish Chaudhary:** Just a couple of questions your loan yields Q2 have fallen a bit this quarter probably due to the impact of this shorter tenure loans so I just wanted to understand what would be the way to look at what would be the stable loan yields to look at once the process of shorter tenure loan stabilization completes and any sense in terms of the spread stable spread that you should look at.

**Kapil Krishan:** See we should look at the yield and spread as a range because we have got 16 lakh customers and so many variables in that and it is not a wide fluctuation that has happened you should look at it to remain in the similar range actually.

**Manish Chaudhary:** And what will be the average duration of your liabilities.

**Kapil Krishan:** See our liabilities as you know we have been doing our public issue of NCDs where we raise even longer-term fund and we also do shorter-term CP so the average would be around between one to two years, our average on the asset side right now is just about five months and the new businesses will initially be funded out of equity and then we will take longer-term bank finance also. So we are very comfortable on an ALM basis is that what you are asking.

**Manish Chaudhary:** And finally is there any old or existing portfolio which has over 100% LTV now.

**Kapil Krishan:** No none at all and as you know now in our accounting if anything is out of money that is not accrued as income so there is nothing in the income definitely and even in the portfolio that is not there.

**Manish Chaudhary:** Thanks so much.

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

**Nischint Chawathe:** What would be the difference in the rate of interest between the short-term and the one year loans?

**Kapil Krishan:** It is the same rate of interest because anyway our average tenure was five months so our customers are still borrowing the same way that they were borrowing all here.

**Nischint Chawathe:** So because somewhere you mentioned that there is a pressure on them because of higher short-term portfolio so...

**Kapil Krishan:** No that is not the case; the yields are the same so the shorter tenure products do not come at a lower yield.

**Nischint Chawathe:** So in that sense whether it is a short-term or long-term it does not really have any impact on the margins per se.

**Kapil Krishan:** No, not at all.

**Nischint Chawathe:** And just if you could give some guidance on the expenses ratio because your Opex to AUM ratio has been coming down so do you think it stabilizes at these levels or it goes up have you invested the business or it could come down further.

**Kapil Krishan:** So we are taking certain steps to bring it down further so basically things like the security guard so the night guard which are very high cost items we are taking steps to replace it with electronic alarm system which will also continue to give us savings so overall I would expect the kind of continuation of this declining trend on the added cost.

**Nischint Chawathe:** And any specific basis points guidance that you would want to give on this front.

- Kapil Krishan:** No we do not do that specific guidance as you know.
- Nischint Chawathe:** Okay, thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Adesh Mehta from Ambit Capital. Please go ahead.
- Adesh Mehta:** Sir my question is that we have deployed more people on the ground in terms of both origination as well as collection and at the same time our employee count has also come down both on a YoY and sequential basis so for how long can we continue with our origination and collection efforts before we should see this our employee count going up again.
- Kapil Krishan:** See the employee count has been almost flat now and it may go up a bit because of the new businesses on a consolidated basis the staff cost has gone up sequentially so as we discussed we are giving higher incentives for collections and for new book so staff cost may continue to see a marginal increasing trend.
- Adesh Mehta:** So sir basically the only operating leverage we would have would be on the brand infrastructure not on the employee counts, would that be a fair way to interpret.
- Kapil Krishan:** Yes the administrative cost definitely I would expect a declining trend and staff cost may not have that same trend as we grow our book hence so that money will spent we feel.
- Adesh Mehta:** And sir in terms of our foray into commercial vehicle financing what could be our target segment or would we be doing LCVs HCVs or so what are your thoughts on this sir.
- V.P. Nandakumar:** LCVs also less HCVs these are going to be our target segments.
- Adesh Mehta:** And would this be new or used.
- V.P. Nandakumar:** Both.
- Adesh Mehta:** Okay thank you sir.

**Moderator:** Thank you. The next question is from the line of Parag Thakkar from HDFC Securities. Please go ahead.

**Parag Thakkar:** Sir as we grow our other businesses will the dividend payout remain same.

**Kapil Krishan:** See there is no formal guidance on the dividend payout so you can just see the past and make you own calculation but we as a policy we do not give any formal guidance on that.

**Parag Thakkar:** No, I am asking for a payout ratio because right now your business is not going to that extent so your dividend payouts are very healthy.

**Kapil Krishan:** Yes, payout ratio definitely we would not expect to have to continue at such high level going forward as the growth comes in. So you can make a projection on the dividend amount not the payout ratio.

**Parag Thakkar:** And in loan against property segment your major focus will be self owned property or loan against any other commercial property also.

**Kapil Krishan:** Self owned property will be our target.

**Parag Thakkar:** Whether it is for commercial business purpose or whether it is for personal home buying but your focus will be to lend against self owned property right.

**Kapil Krishan:** Yes that is right; see we target mostly these SME customers.

**Parag Thakkar:** And sir just last at what level of right now say for example gold price is 27700 or so, so what price suppose that will scare us that we will have to start worrying if it falls below some price.

**Kapil Krishan:** See now our average LTV is around 69% you can discount that at our average loan period is five months so you can take around 10% for the interest and so up to 79 if the price fall up to 21% as we feel our money is save.

**Parag Thakkar:** Up to 21% you said.

**Kapil Krishan:** Yes, I am right because 59% plus 10% because our products are yet of average around five months and 79% - 80% we are comfortable. So if it is 2600 we can

reduce 20% discount 20% and that will be our below that will be our area of discomfort.

**Parag Thakkar:** Okay sir thanks.

**Moderator:** Thank you. The next question is from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

**Manisha Porwal:** Most of the questions are answered. Just a small question on the customer profile I wanted to know what kind of people are opting and what is the use that they are opting the three month loan for and the feature of this loan seems more like an EMI product it is not monthly payment but then you ask them to make a quarterly payment and keep renewing the loan so do you mean that they have customers would be okay even for a EMI kind of product in future.

**V.P. Nandakumar:** In gold loan these EMI products were not that successful, we can only request the customer and incentivize the customer and employees if it remit interest regularly at normally risk. So through incentive wise based of employees and customers we encourage monthly repayment of interest so one there is a customer incentive there is a employee incentive then technology support is also provided to the customer to online payment that is enough, so regarding the customers, three months customers and one year customers there is no difference as such. See why the average ticket duration is around five months because most of our customers are farmers or small traders who seasonal requirement that they pledge quarter to meet their seasonal requirement etc., or somebody who onto spent money for children's education for sometime or they maybe awaiting a loan from a bank for a longer duration then when they get it they redeem these ornaments etc., these are our typical customers.

**Manisha Porwal:** And sir one more question on Jan Dhan I believe you had mentioned that this you feel that this is going to be beneficial as you may get the e-connect with them e-transfer would be possible would not it allow banks to then tap the same customer and allow them because if you are saying that these people can afford an monthly payment would not these become the main source even for the banks to look if gold loan has also allow to banks or may be these will be easy for them to procure and at a lower cost they may not necessarily have to pay a 23% they will come to know that banks are giving them for much lower.

**V.P. Nandakumar:** See our target customers are not bank customers, our target customers are the customers going to the pawnbrokers the organized sector till 1 tonne if I think the total collateral total augment sector maybe holding may not exceed to if the annual import is around 1000 tonne we should understand that the market is ever increasing, if that is the case then who is holding the major chunk today is that our village pawnbrokers. They are in the millions in number across the India. We target those customers with a greater transparency lower interest rate credibility availability etc., if it is the case we do not worry about the banks getting aggressive etc.

**Manisha Porwal:** And sir also wanted to understand from the practical point of view the incentive that you give to your employees does it also get passed onto the customer to employees also in the sense in a way the customer is compensated indirectly through employees.

**V.P. Nandakumar:** No the customer is compensated directly if the customer remits interest as such certain period is this, it is not be monthly at least in three months time he has given an interest rebate this way the customers are incentivize the customers are also incentivize to pay, to remit through online it is reduces the apple is traveling and our employee cost also could be campaigned with this so we encourage this.

**Manisha Porwal:** Thanks that is it from my side.

**Moderator:** Thank you. The next question is from the line of Srinivasan K N from Prabhudas Lilladher. Please go ahead.

**Srinivasan K N:** Sir notwithstanding the difficulties in the gold loan business and may be the micro finance business in the last few years it is still a fact that there is a lot of fit in terms of business strategy this is as these are segments your company understand so well. So the coming back to the question of diversification, when you are getting into housing loans and commercial vehicle loans you have a natural disadvantage there, there are others who have far lower cost of funds. How are you able to, would not you end up spending a disproportionate amount of your management time and attention on these businesses which are extremely competitive and your attention on your core businesses you would not be able to give sharper focus to your core business.

**V.P. Nandakumar:** It is not right actually, we are catering to the bottom of the pyramid that is full on we are catered into the bottom of the pyramid see the top or the bottom of the pyramid they require vehicle finance etc., so a loans against property housing loans is affordable housing finance etc. So that backed up base we have the advantage over our NBFCs for a gold loan company established gold loan company like ours is the large customer base. So we can use this large customer base and determined and communicate with the customer we have these are the new products offered so we have stated this business and these businesses are picking up so up on these early result we feel like our strategy is right.

**Srinivasan K N:** Just to add to that as I mentioned we have taken dedicated teams with extensive industry experience for each of these new businesses and also the other advantage we bring to the take is the capital and the relationship with the banks.

**V.P. Nandakumar:** So just wanted to add these two points as well. Microfinance is run by the original promoters and we are supporting them with sincere way possible. So it is not the new businesses that company has already portfolio of around 300 Crores so it will be this acquisition will be beneficial for the company, for the microfinance part.

**Srinivasan K N:** Thank you.

**Moderator:** Thank you. The next question is from the line of Amit Rane from I-Wealth Management. Please go ahead.

**Amit Rane:** Sir recently corporative banks are allow to double their gold loan under bullet repayment so now they can their limit is up to 2 lakhs so how it has affected us in terms of competition and do you believe that similar change of regulation can happen for us as well and in that case we will be improve our growth outlook.

**V.P. Nandakumar:** I mentioned as our target audience for growth is pawnbroker customers. So this was to win over them though with transparency and lower interest rates has been our prime business more advance our business advantage to this. So if that is the case as corporative banks are allowed to do something or public sector banks are allow to do something else it has been worry us so much.

- Amit Rane:** But sir if similar thing happens to us like if we are also allowed to lined up to 2 lakh under bullet repayment then would not we have a higher growth in the loan book.
- Kapil Krishan:** See we do not have any such restrictions anyway our lending up to higher ticket sizes also though the average is lower there is no such RBI restriction on us.
- Amit Rane:** Okay fine thanks so much.
- Moderator:** Thank you. The next question is from the line of Sameer Bhise from IDFC Securities. Please go ahead.
- Sameer Bhise:** Sir I just wanted to ask any outlook on how many branches are we launching or running the home loan and CV products right now and what is our plan to take it to over the next 12 – 15 months.
- V.P. Nandakumar:** Home loans in the next 12 months we may have around 30 branches.
- Sameer Bhise:** Primarily south.
- V.P. Nandakumar:** No, it is south and central India.
- Sameer Bhise:** And the CV product.
- V.P. Nandakumar:** CV product also our emphasis will be more on the south and central and western India we may be operating through some 30 and odd branches.
- Sameer Bhise:** And just one data point what is the exact tier one as of December.
- Kapil Krishan:** 26.24.
- Sameer Bhise:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.
- Dipen Sheth:** Most of my questions have been answered I just have a couple of housekeeping questions to ask one is that some of the expense hedge has laid out in your specific format to the stock exchange are the numbers are not very clearly interpreted

quarter-on-quarter and I will mentioned them specifically so one there is a state called security charges which is fallen off by more than 4 Crores sequentially.

**Kapil Krishan:** As I mentioned we are in the process of we looking at the need for night guard in all our branches and replacing it with a smarter electronic alarm system which will result in a substantial saving in under this hedge.

**Dipen Sheth:** So the saving is sustainable and in fact will only increase, because we will increase the penetration in terms of number of branches that this kind of technology or initiative will percolate down to...

**Kapil Krishan:** Yes that is our target.

**Dipen Sheth:** Second our provisions have fallen off sharply from about 12 Crores to 1 Crore sequentially so why like and see the headline improvement in asset quality is it fair to assume that if asset quality does not meaningfully change trajectory from here this is the sustainable level of provision or is there some adjustment here and this is really not a sustainable level.

**Kapil Krishan:** No there is no adjustment it is expected the gross NPA had gone a bit higher than what we wanted and we focus on collection of those accounts in this quarter so that is why I came down.

**Dipen Sheth:** So that is exactly what I am trying to say if the current level of NPAs were to sustain and not change meaningfully or deteriorate meaningfully this 1 Crore kind of provision is what looks visible on the current book size.

**Kapil Krishan:** No because there will be a credit also for the previous reduction so I do not think it should take 1 Crores as the figure in your projection.

**Dipen Sheth:** Yes that is what because even if you look at the nine month on nine month numbers provisions are down from 66 Crores to shed down to 20 Crores so the sense I am trying to get here is because I also know that you had a write back in our fourth quarter last year especially to 66 Crores about 47 Crores so this 20 Crores that we have achieved over nine months and let's say even if this was to go to a little lower 20 or 22 Crores now is that the kind of trajectory that we are looking at or is there something more to be read here.

**Kapil Krishan:** The gross NPA we are putting full efforts to maintain it at around these levels but there may be some fluctuations as we said we have a large number of customers so it is not a hard line numbers that you can expect but full effort will be there to keep it in this range.

**Dipen Sheth:** No I have supreme confidence in capacity and the quality of effort in fact it is a little ironical that I would expect that with increasing granularity it becomes easier to predict but be that as it may, question three this other expenses bit and barring employee benefits in your quarterly format this is the single largest head of expense and may be you could share some color around why this is also increased meaningfully over the quarter from 26 odd Crores to almost 29 now and this is actually the second largest head like I said, Item 2G.

**Kapil Krishan:** No, basically these are other miscellaneous expenses if you wish off line we can give you this figure.

**Dipen Sheth:** Yes, we can probably lies in types so the number a little bit and get some color finally if you will allow me one more question I am noticing that the region skew actually hides a little bit of worry in terms of your loan spread across the country so I just get a quick pull out of numbers across if I look at March 2013 as a cut off period and over the seven quarters in the sense because that is what we have completed so far. So north plus east was 14% of your book then and it is about 19% of your book now. So in absolute terms your north plus east portfolio has grown by about 20% in seven quarters and your south portfolio is actually degrown by 30%.

**Kapil Krishan:** That is a very good observation as we said that there were certain branches in the southern part of the country which we wanted to relocate to the central and the north and the east portion so that is is just validating what we said.

**Dipen Sheth:** So there is a little bit of rationalization of business spread that is playing out know.

**Kapil Krishan:** Yes we are shifting branches to higher potential areas.

**Dipen Sheth:** And final observation sir adjusted for the sharp crack in the provisions for the nine months which are down by close to about 46 odd Crores so if I take three provision profits the way we look at bank performance s they have actually fallen

for the nine months. So that means that there is operational cost drag on the business so maybe you are in a phase of growing out your business in new areas and hence operating costs are higher or something I am not very clear but if I take out this impact of sharply falling provisions if you look at nine month provisions are 19.7 Crores versus 66 Crores if I take this out from your PBT then the pre-provision profits have actually fallen.

**Kapil Krishan:** I think granularity we can go through offline, and I do not want to go into a large debate on this so whether if you take that.

**Dipen Sheth:** We will certainly connect with you, fair enough sir thanks.

**Moderator:** Thank you. The next question is from the line of Gopi Nath he is an Individual Investor. Please go ahead.

**Gopi Nath:** Thank you madam the first one is a request from my side it would be very helpful to us in getting a better idea of the management view if you can make the track rate of this quarterly concerns what is available in website this is possible, even the past few conference calls also. Second thing I am second time in the question regarding Asirvad Microfinance it is going to be run completely as a separate entity going forward are there any seen at the advantages that we are going to takes right in this.

**Kapil Krishan:** Regarding the such suggestion yes we will definitely expand in that regarding the second portion Asirvad Microfinance is the approval process of our own we are in the final stages of the completion so once we do that yes the company was just having for capital because of that company was not able to grow the company since not have potential across the country so the same team will be managing the business so as a promoter holding around 80% plus so we will be able to support the company with capital etc., and because of our banking relations the company will be able to get funding also at the cheaper rate this will improve their net interest margin so it will be beneficial for Asirvad Microfinance company in a big way.

**Gopi Nath:** And it be of any benefit to us in the reversal that we get their customers to use our gold loan and assuming are there anything at this branch level.

- Kapil Krishan:** Yes that we are not examine to that so far.
- Gopi Nath:** Okay, what is the valuation at which we are buying it sir what book value one time, two times?
- Kapil Krishan:** 1.85 times two quarters it has been in the nonbinding agreement.
- Gopi Nath:** And the last question is are the gold loan branch is going to be use it for selling these CVs and housing products or we are opening new branches that we can working on.
- Kapil Krishan:** No wherever the new businesses seen that our existing branches can serve their purpose we are co-locating with our existing but obviously if they see potential in some area where we do not have an existing branch they are also free to open their own branch.
- Gopi Nath:** Sir final question, any new products going to be offered in our gold loan branch further in these stuffs whatever is already were known to everybody in the near future.
- Kapil Krishan:** We may introduce this SME loans in another three months time.
- Gopi Nath:** Okay, thank you sir that is all from my side.
- Moderator:** Thank you. The next question is from the line of Mihir Ajmera from Enam Holdings. Please go ahead.
- Mihir Ajmera:** Sir I just had a question on what is the target mix for gold loans has it how much would is the making for shorter tenure and versus a long-term that 12 month product.
- Kapil Krishan:** See the shorter tenure we expect will become the entire portfolio in few quarters.
- Mihir Ajmera:** Okay alright that is it.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Yash Modi for closing comments.



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**Yash Modi:** Many thanks to the Manappuram Management and all the call participants for a vibrant discussions, the call will now be closed have a great day thank you everyone.

**Moderator:** Thank you. On behalf of ICICI Securities Limited that concludes this conference thank you for joining us. You may now disconnect your lines.