



“Manappuram Finance Limited
Q4 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Manappuram Finance Q4 FY2018 Earnings Conference Call, hosted by Motilal Oswal Securities. 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 would now like to hand the conference over to Mr. Nitin Aggarwal from Motilal Oswal Securities. Thank you and over to you Sir!

Nitin Aggarwal: Thanks Stanford. On behalf of Motilal Oswal Securities, I welcome you all to discuss the 4Q FY2018 results performance of Manappuram Finance. We have with us, Mr. V.P. Nandakumar – Managing Director & CEO, Mr. Kapil Krishan - Group CFO, Mr. Raja Vaidyanathan – MD, Asirwad Microfinance, Mr. Jeevan Das Narayan – MD, Manappuram Housing Finance and Mr. Senthil Kumar who heads of vehicle business. I would now request the management team to please share the key highlights of the results, following which we can open the floor for Q&A. Over to you Sir!

Kapil Krishan: Thank you Nitin. Ladies and gentlemen, welcome to Manappuram’s Q4 FY2018 conference call. For the quarter ended March 2018 our consolidated AUM stood at Rs.15765 Crores, an increase of 7.6% from the previous quarter and up 15.4% year-on-year.

Our consolidated income from operations was Rs.889.8 Crores and consolidated profit after tax was Rs.182.17 Crores, which is an increase of 5% Q-on-Q. For FY2018, our consolidated net profit was Rs.670 Crores, which was lower than the figure reported in the previous year by 11%. The standalone profit stood at Rs.169.5 Crores for the Q4 and for the full year it was Rs.700.17 Crores.

Our gold holdings were 64 tonnes as at the quarter end, this is up by 2.6% Q-on-Q and 4.8% year-on-year. Our total number of gold customers was 22.5 lakhs. The gold loan book stood at Rs.11735 Crores, which is up 3.6% Q-on-Q and 5.5% Y-on-Y. Auctions during the quarter were Rs.89 Crores. As you are aware we follow a policy of making regular auctions on overdue accounts.

Our weighted average LTV stood at Rs.1835 Crores or 65% of the current gold price. Interest accrued was only 2.5% of the gold loans AUM. Gold loan disbursements during the quarter were Rs.20,488 Crores. The online book accounted for 32% of the total gold loan book compared to 25% in the previous quarter.

Asirwad Microfinance had a closing AUM of Rs. 2,437Crores, which is 15.4% increase Q-on-Q and 35.7% year-on-year. For the fourth quarter, the Asirwad made the net profit of 13.05 Crores compared with a marginal 0.36 Crores profit in Q3. The company made a provision of Rs.16.95 Crores in Q4.

We provided 24 Crores more than the minimum amount required by RBI because of our conservative practices.

Disbursements were Rs.954 Crores during the quarter compared with Rs.688.8 Crores in the previous quarter. 100% of disbursements are now made in a noncash manner, directly to customer bank accounts. Micro Finance had 15.01 lakh customers, 832 branches, 4168 employees present in 19 states and union territories. We are the sixth largest NBFC MFI in the country. We have a capital adequacy of 15%.

The parent company Manappuram has recently infused a further amount of Rs.100 Crores in the subsidiary, which will take the capital adequacy to over 20%. The home loan business had a total book of Rs.374 Crores, which is up 9.5% Q-o-Q. It operates from 35 branches. The vehicles book stood at Rs.625 Crores, which is up 25% Q-o-Q and they operate from 73 locations. New businesses now account for 25.5% of the consolidated AUM. The consolidated financing cost was Rs.268 Crores. Our average cost of borrowing during the quarter increased by 10 basis points to 8.66%. The average cost is down 104-basis point year-on-year.

Employee cost increased marginally by 1.8% to Rs.162 Crores. Our consolidated headcount now stood at 24,886. There is a 5.6% decline in administrative cost to Rs.133.24 Crores. Depreciation was Rs.18.39 Crores. Number of gold loan branches was 3330. Provisions and write offs for the standalone entity were Rs.24.59 Crores and gross NPA was 0.7%, which is the same as the level in Q3. Loss assets due to theft, spurious gold, etc., were 20 basis points only.

The consolidated networth stood at Rs.3836 Crores. Book value per share 45.53. Interim dividend of 50-basis has been declared by the board. Capital adequacy is 27% and consolidated borrowings stood at Rs.12593 Crores. I now request our Promoter and MD, Mr. Nandakumar to take it over.

V.P. Nandakumar:

Bound by the pickup in business in the second half, the company was able to register a consolidated year-on-year AUM growth of over 15%. The quarter-on-quarter growth alone at 7.6%, likewise there was a good growth in the gold loan book at Rs. 11755 Crores show a quarter-on-quarter increase of 3.6%. Importantly, the growth in gold loan portfolio is seen in Q4 was backed by a 2.6% quarter-on-quarter growth in gold holdings. It now stands up 64 tonnes.

The recovery that we have seen in third and fourth quarter is borne out by the performance of our microfinance subsidiary, Asirwad Microfinance. It closed the year with an AUM of 2437 Crores. This represents 15.4% increase quarter-on-quarter and about 36% year-on-year. More importantly the Asirwad profitability has improved substantially with a PAT of 13 Crores in the fourth quarter compared to only 0.36 Crores in the preceding third quarter.

Earlier you will recall that India's microfinance sector has borne the brunt of demonetisation and Asirwad has reported losses for both the first and second quarter accordingly the full year results of Asirwad has posted a loss of 52 Crores, which has pulled down our consolidated profits; however, a good show in the third and fourth quarter, is a clear evidence that microfinance business have bounced back and is now well positioned to resume the rapid growth. In fact, we expect both microfinance and gold loan to spearhead growth of the company in the coming quarters.

In the other noteworthy developments, our diversification have started paying off, as overall growth was ably supported by robust growth witnessed in the new businesses. In fact our non-gold portfolio collectively grew by 59% during the fiscal year and let by the commercial vehicles portfolio which more than doubled. Put together, non-gold business now contribute 25.5% of our consolidated AUM as against 18.54% last fiscal.

Our online gold loan, OGL for full year is a thrust area for us now accounts for 32% of our total gold loan book compared to 25% in Q3. We continued to pay lot of attention to the technology side with ongoing investments in digitalisation. We also continue to see a decline in our average cost of borrowing which fell by 104 BPS during the year. It now stands at 8.66%.

Our security cost has come down this quarter and we expect it to go down further in FY2019 Along with the good profits, the company has delivered good returns to investors with an ROA of 4.04% and ROE of 17.81%. Thank you. Now the floor is opened for questions.

- Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Viraj Mehta from Equirus Securities. Please go ahead.
- Viraj Mehta:** Hello Sir. Congratulations for the performance. Sir what was the gross NPA in the housing segment last quarter and this quarter?
- Kapil Krishan:** Currently it is 4.7%.
- Viraj Mehta:** And last quarter Sir?
- Kapil Krishan:** Last quarter was around 3%-3.5%
- Viraj Mehta:** So what has seen spike in the NPA because our disbursements are also not grown that fast, so what has led to this spike in the NPA in the housing segment?
- V.P. Nandakumar:** The spike was because the last quarter the growth was also very low, so on a static pool, it has slightly gone up, now it is improved.

- Viraj Mehta:** Sure and Sir on the gold loan, if we look at over last four, three years, if I remove FY2017, apart from that other years, our growth has been around 8% to 10% or slightly high single digit kind of numbers, what gives you the confidence that the growth will come back this year like say for the first 45 days, if you can just quantify what has been the growth in gold loan?
- V.P. Nandakumar:** Till 2012 we were growing at growth rate of around 20% more. 2012 has seen so many changes in the regime, in the regular regime, the LTV has been brought down, so many confusion, etc., the gold price has come down, and so there was a decline. After that, from 72 tonnes it has gone down to even to the level of below 50 tonnes when to be exact 48 tonnes and then it started growing, growing, growing, etc. So from 2013 from 48 tonnes it has reached around 62 tonnes up to 2017. So 2016 again the issue of demonetisation has come, 2016 demonetisation has come, year 2016 last quarter of the year, third quarter of the financial year, so the demonetisation has come, then again because of demonetisation, we are not able to disburse money. The customers did not have the money to service the loan or repay the loans, etc., etc. So again because of that the gold tonnage has gone down. Now from the third quarter and fourth quarter, the growth is coming back that is the only reason. Otherwise what I believe is we will be able to maintain from now onwards in normal situation will be able to maintain a growth of around 15% plus.
- Viraj Mehta:** In gold loan?
- V.P. Nandakumar:** Yes, in gold loan. So that is possible. So if you are tracking the history of five years itself you will feel the change.
- Viraj Mehta:** Yes,
- V.P. Nandakumar:** So that can be easily demonstrated.
- Viraj Mehta:** Sure Sir and Sir in terms if you can just give update in terms of Asirwad, where are we in terms of collection and what is the number for PAR 30, 60, 90 and 120?
- V.P. Nandakumar:** Mr. Raja Vaidyanathan - MD of Asirwad is in the line, so he will be able to answer you.
- Raja Vaidyanathan:** Good evening. The collection efficiency is very close to 100% now. We are at 99.6% collection efficiency since disbursements made from April 2017 and subsequently on the PAR of more than +1 is 3.1%, and PAR more than 90 days is about 2.3% now what you should remember is that our, since we have provided completely our NPA is only 0.2% now, net NPA, so we start the year clean and all the baggage has been taken care in the last year.

- Viraj Mehta:** I understood and do you think that once you grow your books from, around 2500 odd Crores, at what stage do you think you will see the scale for your cost to income to decline significantly from current levels?
- Kapil Krishan:** In fact the coming year itself it will decline. What it happened was Asirwad grew only from after Manappuram took over in 2015 and we grew from 245 branches to about 862 branches in the span of three years and then this three years nearly about 12 branches have been because of the demonetisation, we had to restrict our disbursements and growth. So as of now our opex is 7.2% and that will drastically come down to 5.9% next year and obviously it will come down further and even this is one of the best performing in the industry and income to cost.
- Viraj Mehta:** I understood and Sir when our major exposure as I understand and this is pertaining to only Asirwad's case, is in Tamil Nadu and there is going to be an election year in Tamil Nadu next year, do you see any risk that we have seen with other geographies including their state election, how do you – and I am sure there are going to be some politician for sure will make promises which obviously they will not keep, but will lead to customer behavior, which will be unfriendly towards even microfinance companies, how do you plan to tackle that, are we spreading some education regarding like what do we do so that the history does not repeat itself for us?
- Raja Vaidyanathan** In fact election next year Tamil Nadu election is only general elections and not state elections, since we have completely as you know Kapil said in the beginning, we completely moved to direct bank disbursements since August 2017. Election time the disbursements were usually the problem because they used to have cash and many times election, cash is confiscated even if you have the all papers. So the case in point of Karnataka elections now even during the last two month, our business was very usual and there were no problem at all in the last two to two and a half months in Karnataka also. So we in that way will be insulated from elections on the disbursement side. Collections are always much smaller than the disbursements and so we do not have a problem. On election promises now I think people know that microfinance is not considered as a write off sector or the farm loan waiver it does not come and MFIN have done lot of awareness in this and said we are not a part of any of this government waiver program. To that extent I think it is fairly known. There will be a dip in collection in one or two months during election time because of promises but it is not something, which is permanent.
- Viraj Mehta:** I understood.
- V.P. Nandakumar:** So I use to add one more thing, you see the concentration in a particular state is coming down, which was around 80% in a couple of years back has come down to around below 30% now. So in one year, the chances are in a particular state the concentration will come down below 20%. So in that way also we are managing the risk by spreading the portfolio across the different geographies.

- Viraj Mehta:** I understood. Thanks a lot Sir for answering my questions and best of luck.
- V.P. Nandakumar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus Portfolio Management Services. Please go ahead. We will take the next question from the line of Arvind Ahuja, an Individual Investor. Please go ahead.
- Arvind Ahuja:** Good evening to the management team. I am an individual investor. To my analysis we keep hearing from Q3 onwards of 2018, but we do not really see a traction in topline and if I only restrict myself to the gross NPAs, housing finance, two quarters back, the management team got changed but the gross NPA is still climbing, the vehicle finance business also since it is a relatively new book two, three years, and even GNPA 2.5 seems high even microfinance two and a half gross NPA because it has been nearly one and a half years now since demonetization and just to get a context on that Bandhan, Bandhan has reported gross NPA just about 0.6, so some clarity because if I look at 2013-2014 what appears is that any new businesses you see, you scale up very fast which is commendable but then suddenly, there is a two to three years of unravelling and you do not report consolidated GNPA's and consolidated numbers where it is not flattering, so while the last two to three quarters you call for concall at 5:30, you release the result at 05:20, and today you made exchange filing starting the board meeting at 9:30 in the morning, I think there are certain issues which you need to introspect? I am done.
- Kapil Krishan:** Yes, So about the upload, the board meeting extended and therefore the uploading got delayed and we usually have been following the practice of having the call on the same day in the evening, so we had continued to that as planned and therefore we waited with before we started the call and we fully accept your grievance that there should be some more time here, I guess because it was full year, so we got delayed a bit and we are sorry for that.
- Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.
- Nischint Chawathe:** Two questions. One was in the housing side, you have reported GNPA's of 4.8%, and so just curious what exactly is that, is it any specific one off or how should one look at that?
- V.P. Nandakumar:** Mr. Jeevan Das?
- Jeevan Das Narayan:** **Good Evening** Jeevan Das here, I represent the housing finance. As you all know we are in the specialized segment of affordable housing and affordable housing has been under a lot of competitors spirit entering in, in the last one-year and the last two years or so. So in fact in affordable segment, many of the players are going to a similar sort of position, but what we have done is we know that we

are facing the stress, but the point is to grow with a firm eye on the quality. So while there are some issues in respect of some of the accounts because basically these are on assessed income and there will be challenges in collection but we are not unduly worried because we have to grow and with that while keeping a firm eye on the quality of the book. I can assure you that going forward we will definitely be able to get over this issue, the sector underwent a lot a churn with the type of players, we were because just see in fact three years back there were just about 64 players, there were now today about 94 players with another 14 licenses with NHB. So while this is not to justify but just to give you a broad context to what is happening in the sector, so my only firm conviction is that while we keep a very firm eye on the quality we will grow the book very, very clean and at the same time we will keep an eye on the existing NPAs. So thereby this two pronged approach we would be able to work on the problem. In fact all these assets are very much on the books of the company. There is a also a provision. In fact we have slightly more provision than what is required to be done, standard asset provision is also more. So with all this, we should be able to tackle this issue and come to the tipping point in this year.

V.P. Nandakumar: I wish to add some more. During the last quarter, our emphasis was not to grow, our emphasis was resolution because there was some stagnation in the portfolio as compared to the third quarter and last quarter between the third quarter and last quarter. Resolutions are happening and we are hopeful that the NPA's are coming down. With a new team in place with a new underwriting, the disbursements have started and it is coming up well.

Nischint Chawathe: Sir fair. I know you are earning a yield of 14.95, but since you do not publish the entire financials I was just curious to what do you think this ratio, may be I cannot ask since the size is very small, but what do you think the normal ratio and whats the target , where you think this to settle down in the next one to two years.

V.P. Nandakumar: Sure. I think GNPA in another one year will come down to around 2%.

Nischint Chawathe: Okay. The second question is on the basically on the liability side, on this 52% odd borrowings from banks, what proposals should be in the PSU Bank?

Kapil Krishan: PSU Bank should be around 60%, 60%-65%.

Nischint Chawathe: 60% or 52%, 60% of the overall?

Kapil Krishan: We have got sanctioned lines and we are in touch with all the banks because we are very a safe borrower, there is no issue and I mean there is no issue like you know these lines would not be available for us.

Nischint Chawathe: Sure and your incremental borrowing cost would be?

- Kapil Krishan:** That is 8.8%.
- Nischint Chawathe:** Thank you very much and all the best.
- Moderator:** Thank you. The next question is from the line of Rajiv Agarwal from Sterling Capital. Please go ahead.
- Rajiv Agarwal:** Thanks for the opportunity. Sir I just wanted to know that since our closing AUM has rose so smartly on a consolidated level, but year-on-year as well as quarter-on-quarter, but I do not see the income from operations in fact has declined year-on-year and it has just risen marginally quarter-on-quarter, so I just wanted to know what is the reason for this?
- Kapil Krishan:** Basically the new business is right we have started, they are in the process of stabilizing and we just heard the competitive scenario is increasing in most of these businesses and microfinance will be turning around in FY2019, so we can expect the substantial ramp up in FY2019 contribution of the microfinance of the bottom line and housing finance also we intent to grow the book a little faster so that should also add to the income.
- Rajiv Agarwal:** Okay and my second question is that this rising yields, our cost of fund will obviously be going up, and so are we positioned to increased to take loans interest rate increases in our gold loans.
- V.P. Nandakumar:** Our majority of portion is gold loan, and the gold loan being short-term three months loan, whatever is increase in the cost of borrowing, I hope that can be passed on.
- Rajiv Agarwal:** Okay Sir. Thanks for taking my question. Thanks.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.
- Prakhar Shah:** Couple of questions. First, what was the auctions during the quarter?
- Kapil Krishan:** 89 Crores.
- Prakhar Shah:** Thanks and then in the last quarter?
- Kapil Krishan:** Last quarter was also almost similar level, 84 Crores
- Prakhar Shah:** Sir that gross NPA numbers that we report are on borrower wise classification?
- Kapil Krishan:** Yes, in fact we have been following that for the last three years.

- Prakhar Shah:** Lastly we have given a target of around 1000 Crores of AUM for housing finance over the next couple of years, given NPA status that we are seeing, do we see growth of around, AUM book of around 1000 Crores over the next couple of years for housing finance or are we planning to slow that down?
- V.P. Nandakumar:** No, now the new team have taken the charge in June, so first of all they have to see that the systems and everything is further streamlined, and the resolution of NPA, these are taking place and I hope the results would be seen in the coming quarters and the disbursements also has started taking place, I think in two years, reaching to a height of 1000 Crores may not be difficult.
- Prakhar Shah:** And Sir what will be the capital requirement across this business over the next couple of years?
- Kapil Krishan:** The housing finance is capitalized by 100 Crores, so they will not need more capital. Asirwad we have already put in 150 Crores extra, so they should need extra capital only somewhere in the end of FY2019, and CV is the capital in the standalone entity.
- Prakhar Shah:** Thank you so much Sir. That is helpful.
- Moderator:** Thank you. The next question is from the line of Amit Mantri from 2point2 Capital. Please go ahead.
- Amit Mantri:** Sir, can you tell me what was the profits in the housing business in FY2018 ?
- V.P. Nandakumar:** It ended up with a loss of around 0.8 Crores.
- Amit Mantri:** Okay and can you explain on your gold loan disbursements when we look at from the numbers of Q1 and Q2, there has been a big jump in Q3 and Q4 both quarters in fact this quarter we have done almost I think 20,000 Crores of disbursements in the gold loan business and yet the AUM has not increased significantly, so can you explain what is this reason for significant increase in the gold loan disbursements on a quarter-on-quarter basis?
- V.P. Nandakumar:** We have actually grown in tonnages as you said, the first quarter, second quarter because of the demonetisation issue, the auctions were slightly higher, so the portfolio there was some negative growth, so with the second quarter, the demonetisation challenges are over after that it started growing at a normal level, that is the reason for growth and disbursal. Now the growth is coming in the AUM market
- Amit Mantri:** No Sir I think if the number we look at it what it implies that the gold loan repayments for the tenure of the gold loans has been decreasing over the last few quarters because the disbursements and the AUM growth has not kept pace basically in Q3 and Q4, so has the tenure of gold loan that we have given been decreasing over the last few quarters?

- V.P. Nandakumar:** The disbursal because these are online growth, these are online gold loan, because the churn is going on and they are again closing and second disbursal, third disbursals are also increasing.
- Amit Mantri:** Okay so churn is increasing in the gold loan basically portfolio. Okay. Got it. Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.
- Manish Ostwal:** My question on the overall performance in FY2018 which is around 15.4%, whereas if I look at the consolidated net interest income growth is 8% only, and other operating expenses like employee expenses, other operating expenses are growing with rapid place of 22% and 30%, so I mean one is why the operating performance especially the operating revenue is progressing in the year is so weak and secondly despite of a very high expenses growth, so how do you see these things to correct in FY2019 and 2020?
- Kapil Krishan:** Sorry, actually we missed the initial part of your questions because of the disturbance, could you just summarize it shortly.
- Manish Ostwal:** Yes. My question is Sir I was looking the AUM growth for FY2018, the growth is 15.4% when I look at the net interest income growth which is 8%, obviously our NII growth is lower than the AUM growth and second is the operation expenses growth is very strong at 22%, 30%, employee expense and other operating expenses, so how do you see these things to change in FY2019 and 2020, whether the core profitability will improve meaningfully or there will be a minor improvement?
- Kapil Krishan:** See basically while the closing AUM has grown by 15%, the average we have to see – average grew by 4.7%. So that is the reason why the revenue will be linked to the average growth.
- Manish Ostwal:** And what about our operating expenses growth this year?
- Kapil Krishan:** The operating expenses this year should come down because as you know the security guard that we have been spending a substantial amount on, we are looking at various technology solutions for that and we expect security guard cost to come down and with that the overall admin expenses should also come down this year.
- Manish Ostwal:** And lastly do we have any credit cost guidance in our gold loan business, microfinance and the housing finance business?
- Kapil Krishan:** See gold loan there is no question of credit loss.
- Manish Ostwal:** Credit cost guidance like this year we have provided NPA for that – the gold loan NPAs.

- Kapil Krishan:** So gold loan there is no major increase and even in all the other businesses as we have said, we expect NPAs to come down only, but I have not any specific number on guidance.
- Manish Ostwal:** Okay and tax that remained the same Sir?
- Kapil Krishan:** Yes.
- Manish Ostwal:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Sameer Dalal from Natarwarlal & Son Stock brokers. Please go ahead.
- Sameer Dalal:** Three questions. You talked about gold loan being able to grow going forward and you struggled to grow because of a lot of issues whether it was demonetisation whether it was LTV being reduced whether it was whatever, now my question is what is the actual addressable market that is there for gold loan company which is still with the unorganized sector and is there anyway of shifting that are the LTV just to large for that and that will never shift at all going forward?
- V.P. Nandakumar:** The unorganized sector is till very large, I admit that and what is happening the opportunities in the gold loan NBFCs is such mainly a shift, as far as the unorganized sector, their problem is their inability to raise money from the market whereas that NBFCs have and the NBFC also have the reach and also with the technology like online gold loan, digital gold loan, etc., so much of innovation and also at a lowest cost so will be able to attract on customers from the unorganized sector, we still agree to the opportunity.
- Sameer Dalal:** Is there anyway you can address what percentage of the market is still there in the unorganized space?
- V.P. Nandakumar:** See unorganized sector, there is no data but the general impression is it must be at least two to three times that off to the organized sector including banks.
- Sameer Dalal:** Now I will come back to that question later, but the second question is that the other loan which has grown by significantly – it has gone from 120 Crores to 592 Crores now that quite a significant jump what contributes to this others and what is in the growth in that and how do you expect that others to grow now?
- Kapil Krishan:** Basically this is some loan we give to other NBFCs and there we are getting a yield of around 14% and there is absolutely no delinquency. These are low rated but they are all rated corporates and basically these are companies are better due dilligence by IFMR, so IFMR as you probably know the go beyond what the rating agencies also do, they do a lot of field level study and based on that we also have our own criteria, they are typically companies, which have some external private equity

investments so that we can be assured of the corporate governance and with good auditors, good promoters and a professional promoter, so these are kind of companies we prefer.

Sameer Dalal: How do you see that book growing? How do you intend on growing it because at the end of the day that is like a wholesale kind of lending business that you all are doing, now that is not your core focus, your core focus was eventually to do the smaller ticket, smaller size, if you can just guide us and what you want to do with this book going forward?

Kapil Krishan: Basically our core focus does not change but as you know our capital adequacy is very high right now, so we are pushing on all fronts, we will obviously prefer our core business growth, which is the gold loan and as you know we are putting thrust on home finance, Asirwad and vehicles business, so this is more like a treasury operation, it is not a core focus but since our capital adequacy is so high and we have the space for this and if you see most other NBFCs also do this.

Sameer Dalal: Okay and the last question I mean if you can – you said you are putting a 100 Crores in to Asirwad microfinance because of maintaining the capital adequacy how will that change your stake in the company from where to where it will reach ?

Kapil Krishan: We are already around 95%.

Sameer Dalal: We are now at 95% after the 100 Crores, right?

Kapil Krishan: Yes.

Sameer Dalal: Okay and the residual 5% is with the erstwhile promoter of the company, is that correct?

Kapil Krishan: Yes, Mr. Raja Vaidyanathan.

Sameer Dalal: Any plans may be listing that one or I mean what is the future plan, are you going to merge into your parent company, what is the plan with Asirwad, are you going to run them as two separate companies and really what?

Kapil Krishan: Basically merger will not happen because they have a separate status under the RBI as well. This year they are going to be profitable, so a lot of their capital adequacy requirements can be met by that as well and the board will deliberate somewhere during the end of the year, the company will need extra capital on what would be the best way forward, so Manappuram can put, they can go for IPO, we can take private equity, this is a decision that the board will deliberate at that time and take a decision on.

Sameer Dalal: Okay and if you can allow me to squeeze last one question in, you know your borrowing cost is now at 8.8%, which is extremely competitive and interest rates are rising, how do you foresee your

borrowing cost going forward, where do you see it stabilizing, what would be the fair number to assume as a borrowing cost by FY2019 probably?

Kapil Krishan: See we are low risk borrowers from the banks point of view and even in the NCD market, so we have all options open in front of us. We have got a large customer base so in case we ever decide to a public issue of NCD, that will be also comfortably subscribed, which we were doing in the past and as of now no one knows where interest rates are headed, we are very comfortable on the ALM, we have got enough undrawn bank lines and further sanctions in place. So as of now we are absolutely in a comfortable position and do not see any major issues.

Sameer Dalal: So would you say 8.8% could be a borrowing cost by FY2019 as well?

Kapil Krishan: Yes, it should be below 9% that are the current budgeting.

Sameer Dalal: Okay. Perfect. Thank you very much Kapil and Mr. Nandakumar.

Moderator: Thank you. The next question is from the line of Sental Naran from Crest Wealth. Please go ahead.

Sental Naran: Sir, thank you for the opportunity. What is the operating expenses you are expecting for FY2019 Sir, how much it will come down? Or it will be maintaining the same kind of number?

Kapil Krishan: We think that the overall opex will remain at around 7% opex to AUM.

Sental Naran: Okay and employee expenses Sir?

Kapil Krishan: Employee expenses also will remain under control this year. See Last year you probably may have noticed there was increase in the minimum wages in many states and even bonus was made payable on this higher minimum wage, so that is also one factor why the salary cost went up in FY2018. Going forward, we do not expect it to go up so much.

Sental Naran: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Chaudhari from Equirus. Please go ahead.

Ankit Chaudhari: Thank you for the opportunity Sir. Sir what was the average yield during the quarter on the consolidated basis?

Kapil Krishan: See consolidated yield is a mixture of many products, so that will give you a very unfair kind of – it is not fair to look at that.

- Ankit Chaudhari:** Okay. So I can get the product wise.
- Kapil Krishan:** Yes. We have all that data, so basically gold loan yield is around 24% and commercial vehicle is around 18%-19%, home loan, we have already disclosed, Asirwad is around 22%.
- Ankit Chaudhari:** Okay, so what percentage of borrowing will be getting repriced in FY2018?
- Kapil Krishan:** So around 1000 Crores of NCD is what will be coming up and we also have bank loans and commercial paper, which are anyway short-term.
- Ankit Chaudhari:** Okay, so the NCD is 1000 Crores, what is the interest rate right now and what would be the incremental going forward?
- Kapil Krishan:** Yes, so right now the cost is over 11% because these are old NCDs, and even if we issue today - depending the market is changing so rapidly every day, so it will be definitely in the range of 9.5% to 10%, we think there will be a saving in that.
- Ankit Chaudhari:** Okay. Great. And in the microfinance Sir, currently which segment are we focusing on commercial vehicle or passenger vehicles ,car?
- Kapil Krishan:** We are mainly in commercial vehicles. 90% of that is used commercial vehicles.
- Ankit Chaudhari:** commercial means is it LCV or MHCV or a combination of both, mix?
- Kapil Krishan:** Mixture of LCV, HCV and MCV
- Ankit Chaudhari:** Okay. So any plans to diversifying in another segments, tractors or cars, two-wheeler?
- Kapil Krishan:** We have taken some steps because two-wheeler is one product, which can be very easily cross sold to our gold loan customer base, so we have already started a small business in two-wheelers, which we want to grow, there is a very good cross sell opportunity there.
- Ankit Chaudhari:** So have you started two wheelers across our pan India or is it few states?
- Kapil Krishan:** Naturally yes, not yet pan India. We will go gradually.
- Ankit Chaudhari:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhishek J from VD Capital Market. Please go ahead.

- Abhishek J:** Congratulations on your good results and thanks a lot for asking you question. Sir my question is what is the consolidated number in our GNPA and NPA?
- Kapil Krishan:** See the GNPA has to be seen product wise right. If you look at it in a consolidated basis, it will give you a mixture of all kind of figures. So if you want product wise, we have discussed among them. I can give you some more details there. The GNPA on gold loan is 0.6, commercial vehicle is 2.7, housing finance is 4.8 and Asirwad is 2.3.
- Abhishek J:** All right Sir and Sir one more thing what is the average tenure of our micro loans and gold loans?
- Kapil Krishan:** Gold loan average tenure is two months and in microfinance we give around 18 to 24 months loan.
- Abhishek J:** All right. Okay. Sir when the tenures of gold loan or micro loan reduces, how is that impact the asset quality?
- Kapil Krishan:** Gold loan asset quality goes up because the margin of safety increases and in micro loan basically the shorter the tenure the better but it is also linked to the customer's income and his ability to pay in the competitive scenario.
- Abhishek J:** Sir one more thing, what is the periodity of your gold auctions?
- Kapil Krishan:** Gold auctions are held all the time. There is no fixed tenures, so may be every week also there could be an auction happening. It happens in every region, it is not centralized, so different regions, will keep having it at all the time.
- Abhishek J:** Okay. So basically in a gold loan segment, your GNPA and NPA provisions are offset by auctions right?
- Kapil Krishan:** Yes as I mentioned on my call also, we do regular auctions, we have always been doing that and following that practice consistently, we do not try to time the market based on gold price, to wait for auction.
- Abhishek J:** All right. Okay. Thank you Sir. Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Pawan Gangwani, an Individual Investor. Please go ahead.
- Pawan Gangwani:** See I would request specific commentary on your housing finance sectors, like how do you foresee the coming year, specific to that sector?

Jeevan Das Narayan: Good evening Mr. Gangwani. Actually as you know the housing for all scheme launched by the government and the Prime Minister Awas Yojana has actually boosted a lot of competition as also a lot of housing supply in the sector. So affordable housing is a very much happening segment and there are many players looking at it. Now in this also in fact if you recently there were press reports that the government has preponed the execution of the PMAY Gram and PMAY Urban also, from earlier it was supposed to be done by 2020 but then now March 19 is the deadline given for the gram part of it. Now we talk of affordable housing under the PMAY increasing and also a number of organized players coming into the sectors, who are actually regulated by RERA, a lot of good players will come in, the supply side will increase and also the lending opportunities will increase manifold. So we are actually concentrating not in big cities but in the peripheries of big cities and also in tier B and tier 3 centers. So here not only self construction, but when the organized players come in the supply increases, the demand also will increase and this is where we see great opportunities coming in. So it is a play it was started happening again, there will be turn in the sector and this is a four to five year play. So we have to see that while the growth opportunities are there, we also have to see that the underwriting practices, how best we tackle soft buckets in terms of delinquencies, all that is critical and that is where we have already settled most in a very good technology platform. This is investment phase for the company and going forward we will definitely have topline growth and also control on the delinquency of the portfolio.

Pawan Gangwani: Okay. That answers my questions. Thank you Sir.

Moderator: Thank you. The next question is from the line of Aditya Kiran from L&T Mutual Fund. Please go ahead.

Aditya Kiran: Can you please give us a number of the total amount of gold that would have been auctioned in the full of financial year 2018 and how much was the number in the financial year 2017 and also normally how much is the recovery rate if you were to auction any gold in terms of you have the amount that can be recovered in the auction process? Thanks.

Kapil Krishan: Yes, so we get almost 90% of the amount when we auctioned and the total auction in the tonnage in FY2017 is 4.5 tonnes and its similar figure in FY2018 as well.

Aditya Kiran: So in absolute amount terms it would be good to assume like almost 1300 to 1500 Crores of auction that happens every year?

Kapil Krishan: So in FY2017 it was 929 Crores and 900 Crores in FY2018.

Aditya Kiran: Thank you.

Moderator: Thank you. The next question is from the line of Suhani Doshi from Edelweiss. Please go ahead.

- Suhani Doshi:** I missed it, so can you give me what kind of growth do you see in the gold business for the next year?
- V.P. Nandakumar:** Our expectations we have already mentioned, it is 10% to 15% growth is expected.
- Suhani Doshi:** 10% to 15% growth, okay. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Ripple Wave. Please go ahead.
- Vipul Shah:** I just wanted to ask for Asirwad, is there any net interest margin guidance for the next year, which the management can give?
- Kapil Krishan:** See the net interest margin is regulated in Asirwad Microfinance, which is 10%, we cannot get more than 10% net interest margin.
- Vipul Shah:** You mentioned I believe earlier in the call that all legacy portfolios has been fully provided, so on the incremental loan book is there any credit cost guidance, which management can provide?
- Kapil Krishan:** No, we are going to do a standard provision of 1%, which is prior to demonetisation so that will take care of our usual advances.
- Vipul Shah:** You do not foresee any surprises there?
- Raja Vaidyanathan:** No. Because the current portfolio has less than 3% to 4% of pre demonetisation portfolio, we are already over that.
- Vipul Shah:** Okay.
- Kapil Krishan:** So can we just have the last two questions?
- Moderator:** Sure Sir. The next question is from the line of Suresh Korada, an Individual Investor. Please go ahead.
- Suresh Korada:** Yes. Thank you Sir. Sir three years back we have seen that gold prices have fallen to \$1000 per ounce, so this year with interest rates rising in the US and strong dollar, if gold prices were to fall up to \$1000, so what impact do you see on the credit cost and gross NPAs? That is it.
- V.P. Nandakumar:** See there is an instance of gold prices going down in the past also. Still we could report a reasonable ROE, now the situation has improved during the last one and a half years because the tenure of the loan has been reduced to three months and also the interest collection has improved. Now the receivable where the interest is not substantive is around 2.5% only, so the LTV as we have

mentioned earlier, is around 30%. Thus the gold price going, coming down from \$1300 or \$1280 to \$1000 may not be sudden, it will be gradual. So on a daily basis, we are correcting LTV, so even if it is coming down, it may be over a period by that time the portfolio also sells very fast because they are short-term in nature. I do not expect much loss on account of that, maybe it is a small portion that are receivable, may not be very minor portion. So there could be in such a situation, the problem is there could be shrinkage on the AUM because fast churn, when the loans are re-written, it will be at a lower amount, so that is the challenge.

Suresh Korada: Okay. Thank you Sir. Sir today we collect a 90% of when do auctions right, so that covers the principal plus interest or interest part?

V.P. Nandakumar: Yes, we collect more than 90%, and then see our LTV is around 70%, the receivables which goes to, which can go maximum to six months, may be around 12%. With that there are a chances of loss are very, very low.

Suresh Korada: Okay. Sir one more question with regards to this NPAs, we auctioned very quickly whereas our competitors do not auction at all, so for example our gold loan GNPA's around 0.6%, the competitor's is around 7% of the gold loan portfolio, so the competitors say that if we auction quickly then the customer may not come back so that is why we do not prefer to auction, we give more time to the customer so that he is able to somehow arrange funds and payback but if we auction quickly, then we lose the customer forever, so I just wanted to understand your rationale for auctioning quickly rather than giving customer more time?

V.P. Nandakumar: The proof of pudding is in eating, see the quarter on quarter collateral growth and you can compare with the market, ours is not lower than the market, I think we are ahead of the market.

Suresh Korada: Thank you.

Kapil Krishan: We can take that as a last question, and close the call now.

Moderator: Sir, we have one question in the queue. Ladies and gentlemen, due to time constraints, we will take the last question. Last question is from the line of Amit Mantri from 2point2 Capital. Please go ahead.

Amit Mantri: Sir your website has a new gold loan product where you are giving gold loans for 9.9%; can you elaborate more on that, what kind of product is this, who is your target customers here?

V.P. Nandakumar: This is on online gold loan product, where the customer transact at certain interval, like an overdraft if the customer transact, so this is intended to large ticket customers over 50 lakhs, we have few customers, so we want to give them is special thing.

Amit Mantri: This is above 50 lakhs is it?

V.P. Nandakumar: Right.

Amit Mantri: Okay. Thanks.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Nitin Aggarwal for closing comments.

Nitin Aggarwal: On behalf of Motilal Oswal Securities, I would like to thank the management team for taking out time and sharing the views on the company's performance. We would also thank all the participants who joined us on the call. Thank you so much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us. You may disconnect your lines.