



“Manappuram Finance Limited
Q3 Financial Year 2016 Earning Conference Call”

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Moderator: Good day ladies and gentlemen and welcome to the Manappuram Q3 FY2016 Earnings Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing “*” and 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. Santanu Chakrabarti from ICICI Securities. Thank you and over to you Sir!

Santanu Chakrabarti: Thank you Malika. Good evening ladies and gentlemen, on behalf of ICICI Securities and I take great pleasure in having with us here today Mr. V.P. Nandakumar, MD and CEO and Mr. Kapil Krishan, Group CFO of Manappuram Finance. They are here to discuss with you their company’s performance in Q3 FY2016 and of course the business outlook going forward. Now let me hand the floor over to honored guest from Manappuram Finance. Over to you Sirs!

Kapil Krishan: Thank you Santanu. Ladies and gentlemen, welcome to Manappuram Q3 FY2016 conference call. For the quarter ended December 2015, our consolidated AUM stood at Rs.10,579 Crores, which is up by Rs.359 Crores sequentially that is 3.5%, and it is up 20% on a year-on-year basis.

Our consolidated income from operation was Rs.616.2 Crores compared with Rs.552.5 Crores an 11.5% increased QOQ. The consolidated profit after tax and after minority interest was Rs.100.34 Crores compared with Rs.63.03 Crores in Q2, which is an increase of 59.2%, QOQ and 24.5% year-on-year.

Our gold holding increased by 1.9% QOQ to 58.45 tonnes and it is up 16.4% on a year-on-year basis. This shows that despite the sluggish economic condition, our underlying volume growth is very strong. Auctions during the quarter were Rs.390 Crores. Our total number of gold loan customers stood at Rs.18.72 lakhs.

New customer addition during this quarter was 2.93 lakhs. Our weighted average LTV stands at 70%. Gold loan disbursements continued to be strong during the quarter and over at Rs.9045 Crores compared with Rs.7981 Crores in Q2. Our interest accrued in the balance sheet was Rs.372 Crores which is 3.86% of the gold loan AUM and this compares to 6.7% a year ago.

This shows that we are now collecting a much larger part of our interest due. All these factors indicate strong and healthy underlying business fundamentals. As investors are aware Manappuram has been a pioneer in delinking our business from gold prices by shifting to the new business model. The entire gold loan book is now made up of the new

product. This shift as resulted in fuller realization of our interest income and that has resulted increase in net yields for the gold loan business. This is also the main reason for the improved profitability during the quarter. The new businesses, which we set up and acquired in FY2015, are also gaining traction. Together, they now comprise around 8.6% of our consolidated AUM.

Ashirvad Microfinance had closing AUM of Rs.698 Crores, which is up 30% QOQ and 117% year-on-year. It has 271 branches and earned ROA of 4.2% during the quarter. The home loans business had a total book of Rs.81.5 Crores and loans against property had a book of Rs.41 Crores. Commercial vehicle business had a book of Rs.90 Crores. Each of these new businesses are run by dedicated professional with relevant industry experience right from the top management to the branch level.

We expect the new businesses to contribute around 25% of total AUM in the next three years. We have also commenced insurance broking business from January 1, and that is expected to add fee income to overall business offerings.

Consolidated financing cost declined by 3.1% sequentially during the quarter to Rs.234.5 Crores. Our average cost of borrowings during the quarter declined by 50-basis points to 10.63%. The average cost is down 157-basis points on a year-on-year basis and 234-basis points in the last two years. This indicates our improved financial position.

Our employee cost has increased 8% to Rs.113.8 Crores from Rs.105 Crores in the previous quarter. This increase was mainly due to a provision of around Rs.10 Crores that we made pursuant to the changes in the payment of Bonus Act. Our consolidated headcount which is currently 18,487 declined by 1% QOQ. There is a marginal 3.2% QOQ increased in administrative cost to Rs.90.9 Crores. Depreciation cost increased from Rs.13.4 Crores to Rs.14.3 Crores due to fixed asset additions. The overall number of gold loan branches remains stable at 3,293.

Provision and write offs in the standalone entity were Rs.6.6 Crores; gross NPA was up marginally to 1.1% despite our shifting to the 150-day recognition norm. Most of the gross NPAs relate to accounts that are regularly servicing interest, though the loans have not been closed. Loss due to theft, spurious gold etc., amounted to 0.1% of AUM.

This shows robustness of our internal risk management systems. Our consolidated networth stood at Rs.2718 Crores, book value per share was 32.31 and interim dividend of Re.0.45 has been declared by the board, capital adequacy was at 25.38% and total borrowings were Rs.8939 Crores. I would now request our promoter and managing director, Mr. Nandakumar to share his views on the overall business environment.

V.P. Nandakumar: Thank you Kapil and thank you all for joining us in this concall to discuss our Q3 results. After two years of poor monsoon, India's rural economy is showing signs of stress, rural demand and farm incomes have also been affected by the restricted increases in minimum support prices and the slowing down of NREGA implementation.

Gold prices in India showed declined trend falling by about 3% during the quarter. Despite this negative macroeconomic trend we have managed to grow our consolidated AUM by 20% over the last year up from Rs.8824 Crores to Rs.10579 Crores.

Incidentally, this is about twice the rate of growth of non-food credit. Our performance may be attributed to two main factors. Firstly, our diversification into new business areas and secondly implementation of our new business model in gold loan business. The volume of gold pledged with us as security stands at 58.34 tonnes and it has 16% increased by year-on-year.

Importantly, beginning from Q1 of FY2014-2015, our gold holding has increased consistently over each of the seven quarters so far. This we believe is a clear pointer to underlying strength of the gold loan business and it indicates the potential for pickup in AUM growth if the economy or gold prices revive.

We have added 2.93 lakh new customers during this quarter and the total number of gold loan customers stands at 18.72 lakh. Auctions have come down to Rs.390 Crores during this quarter compared to over 800 Crores in the previous quarter. Interest collection has improved significantly with outstanding interest accrued now at 3.86% of the gold loan AUM compared to 6.7% a year ago.

Our new business have reported good pickup in business volumes especially microfinance and housing and commercial vehicle loans. Our microfinance subsidiary, Ashirvad Microfinance, which we acquired in February 2015, has been growing at a rapid pace and expanding into new geography.

Its AUM is nearly Rs.700 Crores now, a 117% jump over the level of Rs.322 Crores of March 31, 2015. Our new business segments are also doing well, commercial vehicle loans, mortgage-based finance that is housing loans and loans against property now contribute to Rs.212.43 Crores to the total AUM, up from Rs.145.6 Crores in the preceding quarter. As mentioned by Kapil the new business together now contributes to 8.6% of our consolidated AUM while in the previous quarter they accounted for 6.7%.

We are confident our businesses will contribute 25% of the total AUM within the next three years. Alongside the diversification, we have also revised our gold loan business model; we have made a strategic shift to shorter tenure gold loans. It is a way to derisk the portfolio

and make it resilient to corrections in gold prices. As a result the auctions have come down and interest collections have improved significantly.

The diversification and the new gold loan business model have had a visible positive impact on our net profit for the quarter, which at about Rs.100 Crores, it is up 25% year-on-year and 59% over the previous quarter. Another important aspect of our performance is a 50-basis point decline during the quarter in our average cost of borrowings.

This is achieved on the top of the 45-basis points decline recorded in Q2. About 20-basis points of this decline may be attributed to the base rate cut affected by the bank, over and above that we managed further reduction by greater resort to commercial paper and by negotiating better interest rates with the banks either at or close to their base rate. Thank you. The floor is now open for your question.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Digant Haria from Antique Stock Broking. Please go ahead.

Digant Haria: Congratulations on a great set of numbers. I had three questions. The first was, it is very visible that your strategy of changing to short-term products some 12 months back it has started gaining fruits. So my question is that, should the auction number now remain less than Rs.500 Crores, because I think the last two quarters it had spilled above Rs.500 Crores, but now given that we have all short term products, customers may have very little incentive to default actually and hence the auction number should come down. So, is there is a correct way to look out the auction now?

V.P. Nandakumar: You are right. Now the collections have improved, because in three months, they need to bring in as a part of interest a smaller in amount wise, which is affordable to them. Your observation is correct.

Digant Haria: Which also means that your yields which have gone up in this quarter to say 23.5%, 23.6% so that yield should also more or less remain there for the next few quarters, because if there are no auctions, losses, then they yield should remain where they are right now?

V.P. Nandakumar: Hope so.

Digant Haria: Hope so means are you going to reduce our interest rate at the branches, I do not think so you are doing that right?

V.P. Nandakumar: I think the demand is there at this rate of interest.

Digant Haria: My last question is on your microfinance business, so is there any impact of the Tamil Nadu floods on your microfinance business and how do you see the growth and where all have you expanded in the last six months?

V.P. Nandakumar: Impact of the flood is negligible. While taking over the company, the presence of the company was in three states of Kerala, Tamil Nadu and Karnataka. Now, we are present in 11 states. We have opened more number of branches and the company is sufficiently capitalized and the credit rating has also been upgraded because of the Manappuram patronage. Another good factor for the microfinance business is major microfinance companies are now in the process of converting themselves as a small finance bank. So this also gives an opportunity. We believe that our entry into MFI is at the opportune time.

Digant Haria: That is it. I will come for more questions in the queue. Thank you.

Moderator: The next question is from the line of Sudhakar Prabhu from Span Capital. Please go ahead.

Neeraj: This is Sudhakar and Neeraj here. Congrats on a very good set of numbers. You have kept your word both Nandakumar and Kapil and delivered great set of numbers. My first question would be on your gold business. On your gold business now that you have stabilized and things are good and your auctions have come down to a certain level. How do you see this business growing from here for the next three years and do you see this auctions rate remaining in this level under control and what could be the risk factors you could see?

V.P. Nandakumar: We have grown this business with the short-tenure product. Our new customer base has gone up by nearly Rs.3 lakh. Gold security with us has also gone up to nearly 58.5 tonnes, it is also registering growth. Improved collection and shorter tenure loans both these have contributed to the AUM growth. With the collateral showing growth, the AUM is also growing. Because of the improved collection auction will remain at this level even go down.

Neeraj: Mr. Nandakumar, is 10% growth possible over next three years?

V.P. Nandakumar: It is possible.

Neeraj: One more thing in the gold business, I would like to ask you is that there is only pay-out ratio of 50% to 55% as your dividend, so if your profitability now has improved significantly, would we see an improvement in dividend payout also enter the percentage, so the number would change absolute number or would you be maintained?

V.P. Nandakumar: It will be maintained this is what I can say.

Neeraj: My second question will be on your new businesses which you are growing fast, how would you need capital, what would you do acquisition, how do you grow these businesses and how much capital would you need from these businesses? Could you throw some light on that? It is growing to about 25% Kapil all these big numbers did you have, would you need lot of capital which will be the main, presume microfinance right?

Kapil Krishan: Neeraj, we have a very comfortable capital adequacy of 25%, compared to minimum of 15% as required. So we have got enough capital to finance our growth projection and subsidiaries also we can pump in equity as may be required. So they will also have sufficient capital plus the subsidiaries will benefit from our strong relationships with all the banks and the lenders. So for them to get debt capital also has become much easier for them now.

Neeraj: You think you would not need much capital, but you will be able to grow this with the current capital itself right?

Kapil Krishan: We do not need to raise further capital right now.

Sudhakar Prabhu: This is Sudhakar here. You have been improving your return ratios sequentially, now it is 3.4%. Three years down the line where do you see the return ratios from the current level?

Kapil Krishan: We do not give formal guidance for all these detailed numbers and we have indicated growth. So we expect to continue to maintain our figures, but there is no formal guidance on each of these numbers.

Sudhakar Prabhu: My last question to Mr. Nandakumar. This is a people's business and now you have several businesses, which are growing. How do you incentivize your top executive and would you set up an ESOP, which way I asked about the top ten, any plans, any concrete plans on that whole process or keeping your all top 10 -15 executives in place, in the end it is people's business right, so what would be your say on that?

V.P. Nandakumar: One of the attractions for any executive will be the business prospect. When they see the prospects for the business, that itself is an attraction. The second part is about ESOP we will consider that at appropriate time.

Sudhakar Prabhu: It is in thought process right to retain your major executives right?

V.P. Nandakumar: Yes, with this I am hopeful of doing that.

Sudhakar Prabhu: Wish you all the best Mr. Nandakumar and Mr. Kapil.

- Moderator:** Thank you. The next question is from the line of Gaurav Gupta, who is in Individual Investor. Please go ahead.
- Gaurav Gupta:** Thank you Sir for taking my call, I have two questions one is specially for core business and the second one is new business, in core business if you can just give me any idea that Q2 and Q3 we were having AUM as 95 billion and 96 billion, whereas disbursements are 80 billion and 90 billion so can you just give me idea that how old are the AUMs or loans outstanding in the books is it that whatever the loans were disbursed in the last two quarters Q2 and Q3 they are only sitting in books as of now as AUM or still we are having some old loans sitting in our books?
- Kapil Krishnan:** We have got various loan products ranging from three months to twelve months and the average is around three to four months only, so that is the kind of profile of the book that we have and there is no specific ageing because these loans can be repaid at anytime and most of these loans once they fall due they are rolled over also because the customers use it as their working capital. There is no specific ageing because customers can come at anytime to repay the loans so it is very difficult to give a specific figure on that.
- Gaurav Gupta:** If you can just throw some light on this that let us say as if now Q3 if you are seeing that we are having AUM of 96 billion out of this how much amount will be that one which is disbursed six months back or one year back if you have some figure about that.
- Kapil Krishnan:** No that detail we have disclosed to the public actually so sorry I cannot give you that.
- Gaurav Gupta:** My second question is with respect to our new businesses like in our core business we have strong collateral for the amount that we are disbursing, but in new businesses how we will be making sure that whatever loan we are disbursing we have a strong collateral and in case they are certain NPAs we are able to recover our actual amount, how we will ensure that?
- V.P. Nandakumar:** Housing loan is relatively a secured business for the NPA level is very low. We are in the affordable home finance segment where the NPA level is low so it is a relatively safe business. The other business is truck-financing, commercial vehicle financing like LVCs and HCV financing, micro commercial vehicles financing etc., where we have recruited a good team from the same industry and the technology, MIS is also strong. So with the technology and the right people we are able to monitor asset quality and we are hopeful that asset quality will be maintained. Our first priority is of asset quality. The third is a loan against property and our average ticket size is less than 50 lakhs and we are lending in priority to SMEs where we ensure the end use and we track the end use also very closely, so this way we want to maintain the asset quality and regarding our core business it is already said the average LTV is around 70%, the maximum cap of 75% is available only for a short-term loan. For every quarter extension our LTV is down by 5.2% that means for one-

year loan our LTV is around 60%. This way we are guarding the asset quality and going forward our concern about the price volatility is less because of this.

Gaurav Gupta: That is right you have certain controls in place so you just mentioned about SME loans I was just going through your...?

V.P. Nandakumar: About microfinance I do not know whether I have mentioned. In microfinance we follow a joint liability model. We lend only to ladies. Our average ticket size is around Rs.20000, so with Rs.20000 the recovery is almost 100%. The problem with microfinance industry being cash collection there can be some employee perpetrator frauds. We have taken all steps to ensure the chances of the frauds are reduced like sending SMS, then the when default is there, early detection and contacting these customers. Through this we have the machinery to reduce the incidence of frauds. So with all this we are confident of maintaining the asset quality.

Gaurav Gupta: Sir you just mentioned about SME loans I was just going through your microfinance website, company website, over there that is mentioned that they have also introduced SME loan whereas our parent company is also giving SME loans so is there any possibility that two companies are offering same kind of loans so is in overlapping our products?

V.P. Nandakumar: No, in the parent company the minimum ticket size is around 10 lakhs. For the subsidiary Ashirvad the maximum ticket size is around 10 lakhs. Mostly they operate between 2 to 10 lakhs where they also take the collateral security of the rental property. These microfinance companies can lend up to 20% of their AUM in other non-MFI sector that we are using and within these at least 20% of the portfolio is fully secured even though the MFIs maintain an excellent quality at the same time we want ensure of 20% of their AUM is fully secured.

Gaurav Gupta: Thanks for these details. The last one is not question, but just a request like we used to represent in this presentation our quarter-on-quarter AUM growth and analysis so if we can just going forward can includes same kind of presentation our same kind of quarter-on-quarter growth for MFI as well so that we having better idea that what is AUM for that and what it is disbursement in the particular quarter so that will be good for analysis. Thanks a lot.

Kapil Krishnan: Sure, fine noted. Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alf Accurate Advisors. Please go ahead.

- Rajesh Kothari:** Good evening Sir. Congratulations on a good set of numbers. Just one question from my side, seems the gold prices started moving up first question is what is right now the underlying volume growth what we have witnessed in the gold finance for the third quarter?
- Kapil Krishnan:** So the volume growth in the gold holding is actually up from 57.3 tonnes to 58.3 tonnes, which is up 1.7% QOQ.
- Rajesh Kothari:** YOY it will be how much?
- Kapil Krishnan:** YOY is up 16.1% the gold holding.
- Rajesh Kothari:** So, your 16% of volume growth, but AUM growth I think is around 11% I am right?
- Kapil Krishnan:** Yes, because the prices declined around 6 to 7%.
- Rajesh Kothari:** Correct, so now as we move into the fourth quarter of course assuming the gold prices remain where it is then this can significantly lead higher AUM growth, as the gold prices starts moving up.
- Kapil Krishnan:** See LTV is based on 30-day average price and once the LTV goes up the renewals will be at the higher price. So it is possible.
- Rajesh Kothari:** So basically underlying value growth will than reflect the volume growth, I am right?
- Kapil Krishnan:** Yes, volume growth.
- Rajesh Kothari:** At some part of time renewals starts moving up in the gold price than the value growth will be equal into volume growth?
- Kapil Krishnan:** Definitely once the prices go up all the renewals will be at the higher LTV.
- Rajesh Kothari:** Okay, I am do thing going by the history as the gold price starts moving up, do you see consumers probably the borrowers would like to take the gold finance as the prices starts moving up or are there any sentiment driven things?
- V.P. Nandakumar:** No, it may not be, because even with the gold price moving down we have seen the collaterals going up that means it is demand is delinked with the gold price.
- Rajesh Kothari:** Last question, AUM let us assume that had it been the 16% growth which is equivalent to the volume growth, but what does it mean that the directly adds to your profitability or there is no linkage to profitability?

- Kapil Krishnan:** If the AUM would go up for the same volume the average AUM per branch will go up and with the cost remaining the same it will definitely go to the bottom line. Operating cost leverage will come.
- Rajesh Kothari:** Okay, because I was just thinking from the spread perspective I am just trying to understand, how it gets impacted by the gold price?
- Kapil Krishnan:** The spread basically may not have a direct impact, because the saving will come in the opex side.
- Rajesh Kothari:** I mean the interest income, which you will generate on that will be higher that should you mean?
- Kapil Krishnan:** Yes, if the value of the loan disbursed will go up, the cost of funds will also go up.
- Rajesh Kothari:** Probably they may give you lesser gold tonnes, because the gold price moves up, so they may not require to keep instead of for example 100 grams they may need to queue only 95 grams let us say price goes up by 5%.
- Kapil Krishnan:** Yes, so that has to be seen what will happen to the AUM.
- Rajesh Kothari:** Okay and in terms of the distribution network over the next two to three years, can you give some highlight, how do you further number of branches over the next two to three years?
- V.P. Nandakumar:** In Microfinance business, in another five years we may add around 500 branches, 100 branches year-on-year. Gold loan also we may do the same.
- Rajesh Kothari:** You mean 100 branches per year that should you mean?
- V.P. Nandakumar:** Yes.
- Rajesh Kothari:** Addition correct?
- V.P. Nandakumar:** Additions.
- Rajesh Kothari:** And this should be primarily in non-south area?
- V.P. Nandakumar:** Where our presence is not that places like Madhya Pradesh, UP, Bihar etc., we see the demand picking up.
- Rajesh Kothari:** Wish you all the best. Thank you very much.

Moderator: Thank you. The next question is from the line of Prerna Lotlikar from Allard Partners. Please go ahead.

Prerna Lotlikar: Thank you for taking my question. Sir, my question is on what could be NPAs on a 90-day basis?

Kapil Krishnan: It is around 2.5% and as you know that we are not auctioning on 90-day basis, so when the time comes that we moved to 90-day, we do not expect increase from the present level.

Prerna Lotlikar: Based on one rating report, it had mentioned as on June 15, the 90-day was around 5.9%, so this has come down drastically Sir?

Kapil Krishnan: It has come down drastically, because of the benefit of the new product that we have launched.

Prerna Lotlikar: Second question was on the competition, most of the regional banks have will continuously declining their gold loan portfolio whereas you and the other largest gold loan player have been able to grow, so most of them said that this is almost bottoming out of their portfolio perhaps with gold loan prices rising do you see this competition coming again?

V.P. Nandakumar: NBFCs have an advantage because of their availability, reach, etc., are better than the banks. Now with the technology also I hope we will be able to stay away from the competition. We have introduced online payment system where the customers can pay 24 hours to the 65 days. Recently we have launched our online gold loan scheme, OGS where the customer can hand over the collateral to any of our branches and using his mobile he can avail the loan from anywhere. So this technology will always put us above competition and we will be able to do the business at present pricing level.

Prerna Lotlikar: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.

Kashyap Jhaveri: Good evening Sir and congratulations on good set of numbers. I just wanted to understand we have shortened our loan tenures, the volume has grown by about 15%, 16%, disbursements at Rs.9600 Crores gold loan book disbursement itself is Rs.9000 Crores in quarter, so how do you explain this extremely strong growth in a scenario where every other company in the business is sort of declining or dropping the loan book and it seems like everything cost is coming our way. So how do you explain this kind of growth? And is it driven by the fact that distribution and expanded dramatically or it has been driven by in a sort of the rate that we are offering how do you explain this?

- V.P. Nandakumar:** We have shortened the tenure and the customer has the freedom to replace it, to renew it at the new LTV after the tenure of three months.
- Kashyap Jhaveri:** Does he need to repay or he can just renew it?
- V.P. Nandakumar:** He can reuse it. What he needs to do, he is to remit in up-to-date then he has to bring that to the prevailing LTV. So it would be a new loan. See all other loans are being repaid as monthly EMIs. Customer segment is more or less the same. He may be availing microfinance MFI loan or two-wheeler loan, where he/she has a culture of repaying monthly. So in this segment historically that culture of monthly repayment is not there. Here also we do not insist on EMI. What we insist upon is the monthly interest payment and the quarterly resetting of the loan. Now, with the introduction of online gold loan he can reset at the new LTV as a new loan sitting at home. So, the advantage for the customer is he can avail the loan as long as he wanted, but for the company we have derisked because we are collecting the interest every month then every quarter not only we are collecting the interest we are adjusting the LTV also at the prevailing rate. So this way it is advantageous to both customers as well as to the company. So, when the interest is paid using this technology, sitting at home actually the customer has the advantage to plan his cash flow effectively rather than pushing into the end of one year etc., etc. I think our customer as well as our company is in advantageous position.
- Kapil Krishnan:** Plus you see many of the other NBFCs have been exiting the gold loan business and as a market leader we have been benefiting from that actually that has also been helping our figures.
- Kashyap Jhaveri:** Of let us say Rs.100 let us say April 1st and at that point of time you would offer me an LTV of 75% right?
- Kapil Krishnan:** Please come again.
- Kashyap Jhaveri:** I come to you with gold of Rs.100 loan April 1st for the first time, my LTV would be set at 75%
- V.P. Nandakumar:** 75%.
- Kashyap Jhaveri:** At the end of three months, I want to renew that loan, so I earn Rs.75 every month I have to pay interest and on July 1, 2015, my loan will be repaid at 70%.
- V.P. Nandakumar:** We could not get you.

- Kashyap Jhaveri:** As on April 1, 2015, Rs.100 value of the gold determined according to the formula is let us say Rs.100. I have Rs.75 of loan on the April 1. It is a three months loan, which is renewable at the end of every quarter, so I come again to you for renewal, but now my LTV will be reset at 70%?
- V.P. Nandakumar:** It is not. For a three-month period, we are maintaining the same LTV of 75%. I mentioned about average LTV at the current level is 70%. This is the average, because three months we lend 75%, so we also continued to have 6 month, 9 month and 12 months product. With the increase of every three-month, so LTV goes down by 5%.
- Kashyap Jhaveri:** If I take three months loan I get 75.
- V.P. Nandakumar:** In short if you want to pledge for one year that facility is offered where you get that LTV of around 60%.
- Kashyap Jhaveri:** But then would it not it be good for me to pledge it for three months and keep renewing?
- V.P. Nandakumar:** Sorry.
- Kashyap Jhaveri:** Then would not it as a borrower, I would pledge it for three months and then keep renewing unless there is a difference in interest rates?
- V.P. Nandakumar:** Yes, that is right. That is there as per the agreement.
- Kashyap Jhaveri:** What is the difference between three-month loan and 12 month loan?
- V.P. Nandakumar:** Three month loan, the LTV is high so and so the interest is high as compared to longer-term products.
- Kashyap Jhaveri:** What is the difference between gold loan let us say 12 month gold loan and 12 month MFI loan in your subsidiary, what would be that difference?
- V.P. Nandakumar:** Three months LTV is 75% than one year.
- Kashyap Jhaveri:** I am saying let us say difference between the lending rate, let us say 12 month gold loan lending rate versus 12 month MFI loan what would be the difference?
- Kapil Krishnan:** The MFI loan is EMI based. The collections are sometimes fortnightly, sometimes monthly plus there you get around Rs 17000 only first loan once you complete one cycle only you are given a higher loan. In the gold loan, there is no such limitation on the amount, it is not an EMI product you can come and repay it in one day also, we give one-day loan as well

and you can take higher limits.Plus there is no joint liability, which is there in the microfinance industry. You can come and transact your business on your own. So these are the major differences.

- Kashyap Jhaveri:** Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** How much of your rollout has happened in the network enabled locker system?
- Kapil Krishnan:** Sorry, we did not understand that question?
- Jagdish Bhanushali:** We have got a new product that is network enabled locker system where we can deposit the gold and whenever you want.
- V.P. Nandakumar:** You mean about renewal happening?
- Jagdish Bhanushali:** No the new product that we have come up with?
- V.P. Nandakumar:** Online gold loan is it?
- Jagdish Bhanushali:** That is right.
- V.P. Nandakumar:** We have already rolled out. CEO is here. Dr. Sumitha . She will tell.
- Sumitha Nandan:** We have just launched two weeks back, so we have a customer base of about 1000 and the collateral would be around 8 kilograms.
- Jagdish Bhanushali:** How many lockers have you already installed?
- Sumitha Nandan:** Sorry.
- Jagdish Bhanushali:** How many lockers have you already installed?
- Sumitha Nandan:** Right now we are going to leverage the existing branches. So, we have not come out with e-locker as of now.
- V.P. Nandakumar:** There are no separate lockers available. We are using the existing branch network.
- Jagdish Bhanushali:** Can I get the equity capital of Ashirvad Finance?

- V.P. Nandakumar:** It is around Rs.112 Crores.
- Jagdish Bhanushali:** Any fresh infusion, are we looking into it?
- Kapil Krishnan:** In Ashirvad, we are planning to infuse capital because the next year growth targets are very aggressive and so for that we may put up to Rs.100 Crores equity also.
- Jagdish Bhanushali:** The question again I will come with yield of this how much amount of savings is expected from this new product line, in terms of employee cost or something, employee reduction, do we expect anything happening on that front then?
- V.P. Nandakumar:** The benefits of the new product are more in the yield actually and not so much in the cost, more for the customer convenience. Customer can operate sitting at home. So the advantage what we see with the convenience for the customer is he will remain as our customer, we will be able to acquire new customers and also he will service the loan regularly, this will elongate the loan tenure.
- Jagdish Bhanushali:** Coming back to our regular business, do we see competition also launching the short term product that we have three months, six months and nine months, do we see that also happening?
- V.P. Nandakumar:** We are not seeing that in the market.
- Jagdish Bhanushali:** What is the LTV competition will be operating at that moment in terms of lending out?
- V.P. Nandakumar:** In the market, it is one-year loan where they grant around 75%.
- Jagdish Bhanushali:** Another thing is that our employee cost has once again moved up by about 13, 14 Crores because in last previous call you had said that somewhere the cost should stabilize at about Rs.100 Crores or something Rs.105 Crores, but I again it is moved up in this particular quarter as well. So one of sort of once again in terms of bonus payment or what the run rate will be?
- V.P. Nandakumar:** Actually net of the Rs.10 Crores that we have provided for the bonus, there would have been a decline actually and the number of employees has also come down. So there is actually a decline it is increased only because of the bonus changes, the payment of Bonus Act.
- Moderator:** Thank you. We have the next question from the line of Hitesh Kumar from Emanation Partners. Please go ahead.

Hitesh Kumar: Good evening Sir. Congratulations on a good set of numbers. I would just like to understand on this 200-BPS improvement in yield that we have seen in this quarter. So how much of it has come from the reduction in loss of auction and how much as it come from any change in the rack rates or average lending rate that we have seen for the quarter?

Kapil Krishnan: Basically what happens is that reduction in auction is not directly correlated to the yield because auction is a normal process of collecting interest. The point is that how much of interest is lost actually. So, the benefit of the shorter tenure product is that the loans do not go out of money so fast. They are more in the money when we auction it. So that is why the yield has gone up.

Hitesh Kumar: Most of this improvement has come, because of the savings that we have seen in auctions and that is the reason. The rack rates have remained more or less the same?

Kapil Krishnan: Yes. Now auctions also come down, because the customer also has got much less interest to pay, so he ends up paying up more and rolling over the loan again, so that is why the auctions also come down.

Hitesh Kumar: In Q4, given that we have already seen 15% rise in the gold prices, should the gold price remain firm, so in that case that loss also will be reduced will also be reduced in Q4 and which will further act to the yield, am I right in that understanding?

Kapil Krishnan: I mean losses are already negligible, so there may not be further saving on that account.

Hitesh Kumar: Okay got it and sir just one last question how do we see the borrowing profile that we are currently have, how do we see that mix going forward?

Kapil Krishnan: Basically now around 15% is from CP and the banks are around 70%, so we expect to maintain these ratios now for sometime, the debentures component may come down because we are not doing public issue of debentures as they are very costly fund and the banks are offering us very good rates, so therefore we are not focusing on debentures at present.

Hitesh Kumar: So debentures component would probably reduce and this component of CP and bank finance will go up going forward right and that will further lead to some savings on interest cost?

Kapil Krishnan: Marginally we can continue to expect some declines.

- Hitesh Kumar:** Thank you. That is it from my end.
- Moderator:** Thank you. Next question is from the line of Rahul T who is an Individual Investor. Please go ahead.
- Rahul T:** This is Rahul from Bangalore. First of all congratulations on a very good set of numbers. I have couple of questions regarding rewarding the shareholders. First considering that your capital adequacy is above 25% and book value is above 32, any plans for any bonds issue?
- Kapil Krishnan:** No such plan, I just answered that. We may not be doing bond issue.
- Rahul T:** Okay and any increase in dividend per share.
- Kapil Krishnan:** That was also answered that we expect to maintain at present level.
- Rahul T:** Okay and just one more you have mentioned that in three years' time the new businesses will be adding about 25% of the total AUM right?
- Kapil Krishnan:** Yes, in three years' time.
- Rahul T:** Okay, so if that happens, if the new business acquires its own critical mass and good growth rate, do you plan to lift them or house it as a separate entity or you want to have it together as Manappuram Finance only?
- V. P. Nandakumar:** It depends on the circumstances. How is the market going to be, the capital requirement, etc.
- Moderator:** Thank you. Next question is from the line of Raghav Garg from Banyan Capital Advisors. Please go ahead.
- Raghav Garg:** I just got to know that your new product which is the online gold loan services started two weeks ago what is the potential that you see in generating business through this channel and what is the potential for reduction in cost going forward?
- V. P. Nandakumar:** There is a potential. More importantly we would be able to attract customers because it is a convenience product, so we can make the process very easily serviceable, so with that we are hopeful of acquiring more customers that is our intention. Of course the cost will come down because some rationalization in branches are possible, so we have not really estimated because we have just started the business, we will be able to comment upon that after one or two quarters.

- Raghav Garg:** So could we see substantial savings in cost not immediately, but is it on the line.
- V. P. Nandakumar:** Yes it is possible.
- Raghav Garg:** Okay thanks a lot. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Thank you very much Sir. First question is just an clarification you mentioned that your employee cost is likely to decline net of this Rs.10 Crores provision that you have done, so basically if I net it of Rs.104 Crores is what we had spent as employee cost so we expect it to decline from this level?
- Kapil Krishnan:** No I said it has declined in Q3, net of the bonus provision.
- Deepak Poddar:** Okay, but in terms of outlook this Rs.10 Crores will not reoccur in the coming quarter, so it should be in the range of Rs.104, Rs.105 Crores is what that my understanding is, is it correct?
- Kapil Krishnan:** Yes we do not expect any major increases now in the employee cost.
- Moderator:** I will request you to please return to the queue for any follow up. The next question is from the line of Bunty Chawla from Axis Securities. Please go ahead.
- Bunty Chawla:** Thank you taking my question. First of all you have given the ROA for the microfinance industry, it was around 4.2% right, can you give the same number for housing finance and CV portfolio?
- Kapil Krishnan:** These businesses are very new right now and they are just at very marginal levels right now, therefore, we are not giving those figures right now?
- Bunty Chawla:** Can you give the figure for the housing finance acquisition, what was the amount for the acquisition of housing finance portfolio or housing finance company?
- Kapil Krishnan:** No we are not acquired any company in this quarter, we had set it up last year.
- Bunty Chawla:** That is it from my side. Thank you.
- Moderator:** Thank you. Next question is from the line of Rishindra Goswami from Locus Investments. Please go ahead.

- Rishindra Goswami:** Just couple of question. What is the total employee count now in the gold loan business and borrowing in the standalone entity?
- Kapil Krishnan:** Basically in the gold loan business, we have 16,564.
- Rishindra Goswami:** What would be the borrowing on the standalone entity?
- Kapil Krishnan:** Rs.8357 Crores.
- Moderator:** The next question is from the line of Siddesh Mhatre from Dimensional Securities. Please go ahead.
- Siddesh Mhatre:** Congratulations on the set of good numbers. All my questions have been answered. Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Abhishek Jain from KR Choksey. Please go ahead.
- Abhishek Jain:** I have one small question. Most of the questions have been answered. First thing is like in last three years, we have not increased the branch network, do you see any growth in that number first thing, second thing now the industry has been consolidating, are we seeing some NII growth, because we are not seeing the growth in the yield part, but what exactly is your view on that Sir, 23%-23.5% right now, so what exactly your view at this point of time, how will it grow going forward?
- V. P. Nandakumar:** The branch network may grow by 100 branches every year where our representation is not there. We may open branches, like northeast and the central part of India that we may open the second part of your question was about net interest margin?
- Abhishek Jain:** Yes Sir the yields.
- V. P. Nandakumar:** Yields we are hopeful of protecting that yields because in order to stay away from the competition we are introducing technology-oriented services, we have already mentioned about online gold loan schemes and online remittance facility for the customers, so our strategy would be to give customer a good experience in servicing the product and availing the loan through technology.
- Abhishek Jain:** Last question when are you planning to get into 90 days?
- Kapil Krishnan:** Get into?

- Abhishek Jain:** 90-day recognition in NPA Sir.
- Kapil Krishnan:** Next year the RBI norm will be 120 days, after that it will be 90 days.
- Abhishek Jain:** So you will be doing as per norm only?
- V. P. Nandakumar:** Yes we will be doing as per the norm. We do not find any problem.
- Abhishek Jain:** Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Manish Bhandari from Banyan Capital. Please go ahead with your question.
- Manish Bhandari:** Your presentation is very exhaustive, so my question is philosophically we have a gold loan business where someone who pledge his gold then we have a microfinance business where someone could borrow without any security and both have a yield of similar or something like 23%, 24% don't you see a disconnect there where both businesses where it is secured or otherwise unsecured would have the same kind of yields, so what does that indicate the yield in the gold business over a period of time would come down sharply?
- V. P. Nandakumar:** In Microfinance business currently our cap on an individual loan is around Rs 20000, which operates through a JLG model, a group liability model, it is lent only to ladies, but their demand may be more, they may have ornaments, so those customers availing the microfinance loans, also avail gold loans, some would say for example for meeting the children's education and other things they have so many other requirements for that they avail gold loan so of course one is a secured business, secured by gold, the other is unsecured, but the micro finance industry has demonstrated that it is a no NPA business that is why the segment is attractive.
- Moderator:** Thank you. The next question is from the line of Abhiraj Jain from Singular. Please go ahead.
- Abhiraj Jain:** Hi Nandakumar, Kapil. I just have one question. In this quarter numbers, was there any portion of the loan book where reversed and to what was the magnitude of it?
- Kapil Krishnan:** Basically that portion is now negligible as we mentioned.
- Abhiraj Jain:** So the interest income is the true yield on the portfolio if I may say so.
- Kapil Krishnan:** Yes.

- Abhiraj Jain:** Thanks.
- Moderator:** We take the next question from the line of Krishna Kumar who is an Individual Investor. Please go ahead.
- Krishna Kumar:** I could see we have started our DMAT services as well. So is there any idea to start mutual fund future. Can you please throw some light on this?
- Kapil Krishnan:** No such plans.
- Krishna Kumar:** Thank you.
- Moderator:** The next question is from the line Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** I wanted to understand where do we account cost of auction. Usually the cost of auction stands at about 2% of the AUM in case of gold the gold goes for an auction.
- Kapil Krishnan:** I do not know where you get that figure from actually.
- V.P. Nandakumar:** May be because the auction loss has come down because of that the yield has gone up.
- Jagdish Bhanushali:** So we do not have any cost of auction as such.
- V.P. Nandakumar:** That is right, that is already the factored in the cost.
- Jagdish Bhanushali:** Thank you.
- Moderator:** The next question is from the line Manish Porwal from Taurus Mutual Fund. Please go ahead.
- Manish Porwal:** This is Manish. Sir my question which was we are having a debate on that this business should have a 22% yield when we have a pledging of the gold and we have a microfinance which is sitting in the same house under the same tree and which would have 24%. So someone would be much better of borrowing as an unsecured lender than being a secured lender. So do you think this just over a period time the yield on the gold loan business should go down? I was also referring to that RBI is already increased the cap on the microfinance borrowings substantially. So does that allude to that and that has also reflected in the kind of net addition what we have seen in 1.5% QoQ number, so if you can throw some light on the probable scenario which could go forward in next two, three, four years.

V.P. Nandakumar: That has been partly answered already. So the microfinance is available only to women in joint liability groups. The borrowing power is restricted. Secondly, the segments are different. The microfinance is at bottom of the pyramid and the gold loan top of the bottom of the pyramid and upwards. So there is a difference in the segment but at times the microfinance customers also borrow through gold loan because the microfinance availability is restricted through the act. They can borrow only from two MFI institutions, so whenever the demand is more and also if they have the gold collateral with us they need to go for that. The second part is about charging 24% interest. The tenure of the gold loan is around four months only. When you borrow using a credit card the banks are charging 3% per month, so for a short tenure loan that also where the ticket sizes also around Rs 30000. People actually do not bother much about that. In gold loan we need to charge 24% because this is the people intensive business and also the branch spread also is required. So because of that it is a relatively high opex business.

Manish Porwal: Sir another question is that if we have just 3% of the penetration in India in the organized market. Our customer volume would not grow substantially, I see from the number that hardly could be 1.5 very low numbers. So what is holding that back that we are not seeing a significant customer addition in terms of gold. The customer addition is not substantial in a gold loan business. What is plaguing the industry on the customer addition side? If there is a demand and there is a huge unorganized market. There is a value for money. So what is holding the customer addition?

V.P. Nandakumar: The customer increase is regularly happening. This quarter itself we have added 3 lakh new customers, that means every month we are able to add around a lakh customer. Our gold holding also has increased. The increase is around 16% y-o-y, during FY15 the increase was around 17%. So, that means the demand is increasing. With the new customer addition of 1 lakh per month, that rate itself shows the demand is increase.

Manish Porwal: Sir my last question is would we have benefit transfer impact our business over a period of time just to direct credit from government in some farmer section to the section, which we also addressed by way of gold loan. So do you see that as a threat to our business?

V.P. Nandakumar: The gold import to the country is remaining steady at around 1000 tonnes a year. As per the data statistics a major portion of that is going to the jewelry segment that is around two-third is going to the semi urban and rural India. So there is no question of the demand coming down. With the contraction some companies had, NBFCs and bank you must have seen a couple of years back all these banks and NBFCs came very aggressive in the gold loan segment. Many of them receded because they found that the systems they have may not be sufficient in managing this gold loan because it is a different line of business even though seemingly it is a simple business it may not be so. Few companies have established



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network the technology and wherewithal and large number of employees also which are really required for the business. These companies have an edge over the new entrants.

Manish Porwal: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen due to paucity of time that was the last question. I now hand the conference over to Mr. Santanu Chakrabarti for his closing comments.

Santanu Chakrabarti: Thank you and thanks to Manappuram management and all the call participants for such an engaging discussion. The call will now be closed. Please have a great weekend.

Kapil Krishnan: Thank you everyone for joining.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.