August 04, 2022

The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001. BSE Scrip Code: 532636	The Manager, Listing Department, The National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. NSE Symbol: IIFL

Sub: - Earnings conference call transcript

Dear Sir/Madam,

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and further to our earlier intimation regarding the earnings call for the quarter ended June 30, 2022, please find attached herewith transcript of the said earnings call which was held on Thursday, July 28, 2022.

The same is made available on the website of the Company i.e.
https://storage.googleapis.com/iifl-finance-storage/files/investor/financials/IIFL_Finance_Q1FY23_earnings_call_transcript_0.pdf

Kindly take the same on record and oblige.

Thanking You,
Yours faithfully,

For IIFL Finance Limited

SNEHA PATWARDHAN
Digitally signed by SNEHA PATWARDHAN
Date: 2022.08.04 18:38:50 +05'30'

Sneha Patwardhan
Company Secretary
Place: Mumbai

Encl: As above

CC:

Singapore Exchange Securities Trading Limited
2, Shenton Way, #02-02, SGX Centre 1,
Singapore - 068 804

"IIFL Finance Limited Q1 FY-23 Earnings Conference Call"

July 28, 2022

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Finance Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you and over to you sir.

Rajesh Rajak: Good afternoon everyone. On behalf of team IIFL Finance, I thank all of you for joining us on this call. I am Rajesh Rajak – Chief Financial Officer. I am accompanied by Mr. Nirmal Jain – our Managing Director, Mr. Monu Ratra - CEO - IIFL - Home Finance, and Mr. N Venkatesh - CEO - IIFL - Samasta Finance. I will now hand over to our Managing Director Mr. Nirmal Jain to comment on the economy and the group's overall strategy and plan. Over to you sir.

Nirmal Jain: Thank you Rajesh. Good afternoon and welcome to the analyst call. So, macro environment as we all know, the global environment is turbulent, yesterday FED hiked the rate by 75 basis point which was a little aggressive, but maybe most people say this was much required or called for. Market rallied maybe for a variety of reasons. But the fact which very few people doubt is, that there is an imminent slowdown or recession in the developed world and particularly USA and Europe. So, the global backdrop is worrisome. But in that backdrop, if you see India then the underlying momentum in the economy is very strong. So, if you look at all the headline numbers of GST collections, the consumption demand or auto sector, at the same time, there are recovery signs in the rural economy as well. And also this is corroborated by earnings particularly of banking and financial sector, IT sector as well as capital goods. So, India seems to be a sweet spot in this global economy.

And coming to NBFC sector and our company, NBFC sector also has come out of a long crisis, which began with the IL&FS first and then a few more other corporate defaults, and then COVID crisis broke out, and the sector seems to have consolidated. Now the liquidity as well as credit demand is improving, the environment is becoming a lot more positive. Coming to us, we had a good quarter. So, now I would like to emphasize more on our Core Products because these are the products where we are focusing for growth and now they account for almost 95% of our portfolio. Growth was 26% in terms of core loan AUM, and the pre provision operating profit was up 32%. We had high provision this time again, and the post provision profit before tax and profit after tax were up by about 24%. So, the provision requirement was higher as we have restructured microfinance pool and in fact close to Rs.375 crores which was restructured earlier, came out of restructuring in last quarter, the payment would have become due last quarter maybe some in this quarter. And there we are seeing some stress and we have been conservative, we provided for it aggressively. We have taken about Rs.100 crore additional provision in microfinance. But what is noteworthy this quarter is that NPA has started falling and the GNPA number which was 3.2% at March end, even after following RBI stricter norms, which RBI has given some discretion till September 2022, but we continue to follow the norms that will come in force by September 2022. And with that our GNPA number was 2.6% for the entire book, NNPA or the net non-performing assets after provision for stage three was 1.5%, down from 1.8%, and the provision coverage ratio has improved and is now 137% as against 123% in the previous quarter. Our net gearing which if you net of the cash liquid and cash equivalent and deemed debt which contractually or legally is not debt, is around 4.4 times, significantly better than what it has been in last two years. Our capital adequacy for IIFL Finance Limited is 22.8%, slightly lower than 23.9% last quarter, but IIFL Home Finance capital adequacy is at 30.7%, which is significantly better. Almost half of our business now is done by our housing finance company.

Our operating costs again has gone up quite significantly last quarter. 200 new branches were commissioned and more than 2000 people got further added to our manpower strength. So, our total manpower now has crossed 30,000 mark. We continue to invest in technology and marketing as well. Along with this also the annual salary hikes and in an environment like this, there have been pretty good so that impact is also is visible in the first quarter operating cost. The outlook is positive because as I said, that accreted demand is showing strength, the collection and general credit quality is also improving. Interest rate hike is always a worry for any lending institution, but as far as the concern for us, given our retail small ticket granular book and even home loans that we operate in affordable housing relative to the rest of the financial sector, we will have better capacity or better superior ability to pass on the interest rate hike, as long as in a reasonable band. If it goes up significantly, it can impact demand, but at this point in time, the economic momentum is so strong that it looks like it has been taken in stride. So, with this, I will hand it over back to Rajesh to take you through details of our profit and loss. And some developments in the quarter and then we will open it for Q&A. Thank you.

Rajesh Rajak: Thank you, Mr. Jain. So, in line with the momentum of the previous quarters, our profit continued to grow, the profit after tax for the quarter was highest ever at Rs.330 crores, which is up 24% on a year-on-year basis and 3% sequentially. The major drivers being the volume growth of 22% in AUM and the higher non-fund base income. The PPOP was at Rs.674 crores, up 32% on a year-on-year basis and 1% sequentially. Our loan book structure is such that 95% of our loans are retail in nature and 67% of our retail loans are PSL compliant with the exclusion of gold loans which are not classified as PSL loans, but we have other benefit for banks in terms of capital charges. This is in line with a capital optimization strategy that 39% of our AUM is either assigned, securitize or under the co-lending model, the same number for the previous year for the same period 34%.

Since April 21 till June 22, that is a period of 15 months we have added almost 11,000 employees and over 1000 branches. This has obviously affected our cost to income which has increased to 43% in Q1 FY23 last year same quarter was 38% but the expansion has paved the way for accelerated growth in the future. The annualized ROE continues to remain about 20% at 20.5% and largely driven by annualized return on asset of 2.9%. A capital adequacy as mentioned at 22.8% is significantly higher than the regulatory requirements. Our average cost of funds for the quarter at 8.5% is lower 48bps on a year-on-year basis and 9 basis point down even on a sequential basis. At the quarter end, we had liquidity of Rs. 5,520 crores which was adequate to meet not only all near-term liabilities, but also the growth momentum.

Two important events to play during the quarter one is, we entered into a joint venture with Open Financial Technologies Private Limited, which is Asia's largest SME focused neo - banking platform. With this, we aim to strengthen our offering, making our entire product range available to MSME customers. The second update was that the Board of Directors of IIFL Home Finance Limited approved a transaction involving investment by a wholly owned subsidiary of ADIA Abu Dhabi Investment Authority of Rs. 2,200 crores for a 20% stake in IIFL Home Finance Limited.

A brief update on digital properties that we have. We largely do DIY loan sales through WhatsApp and MyMoney app. More than 45,000 customers have been on boarded till date under the above initiatives and the DIY disbursement in the quarter one was at Rs.260 crores. We also have another initiative of gold loan at home which continues to see significant traction and it has increased fourfold to Rs. 206 crores during the quarter. Also, in terms of servicing transactions for customers, they can do it through IIFL loans app and my money app. We had about 3,50,000 active users during the quarter, which is in line with the overall digitization strategy of the company. So, these are the brief updates. We can now open the floor for further questions. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Sukriti Jiwarajka from Laburnum Capital. Please go ahead.

Sukriti Jiwarajka: Just on the first point you mentioned the stress that you're seeing in the restructured book is only the MFI restructured loans or the overall Rs. 400 crores restructure that you reported last quarter?

Nirmal Jain: MFI was a large part of it and the other restructured book actually came out was relatively lesser. So, the stress that we are seeing is predominantly in MFI.

Sukriti Jiwarajka: Okay. No, because last quarter as of 31st March, the MFI restructured book was zero.

Nirmal Jain: So, suppose restructuring is over as on 31st March, then your payment will become due sometime in the next quarter. And once you have defaulted for 90 days, then only it becomes GNPA or a stress asset.

Sukriti Jiwarajka: So, all this will slip into NPA right?

Nirmal Jain: Not necessarily, because as they come out of restructuring some customers do pay, and some of them don't pay or some of them are not able to pay the full amount that is required as per RBIs new policy, then they get into NPA. But there is a recovery process, and there's a collection. So, it's not that, if somebody has not paid for one or two installments, it will definitely go into a loss. So, with some of that recovered, and some of them come after a lag, so there's a recovery from pool that is identified as NPA also.

Sukriti Jiwarajka: Sir, can we quantify about Rs.375 crores of restructured MFI loan, maybe on a quarter-to-quarter back, how much has slipped, how much is in stage two. Because what I'm seeing is also right now stage three provisions for MFI it's still at 67%. And MFI customers don't usually come back. So, I am just trying to understand what has gone where?

Nirmal Jain: So, these are COVID related restructuring, because many of these customers had their income and livelihood suspended for some time. So, out of Rs.375 crore, we should be able to recover at least half of it. And the process is there, so recovery is happening and it is not zero. See, what happens is the customer under normal circumstances not paying for say 90 or 180 days then you are right, that will become very difficult to collect. But when you give a holiday for a time period, and then you come back and it takes some time then it's a different situation. So, now that entire thing has come out of restructuring, so last quarter and this quarter we'll know exactly how much the total stressful assets are.

Sukriti Jiwarajka: Sure. No, just for the half that we don't expect to come back, are we 100% provided there?

Nirmal Jain: Rs.271 crore is the provision in total for MFI, and so maybe.

Sukriti Jiwarajka: Rs.271 crore including Rs.100 crore this quarter?

Nirmal Jain: Yes. We may need some more in the next quarter, I guess.

Sukriti Jiwarajka: Yes, got it Rs.275 crores you said right, total provision in MFI?

Nirmal Jain: Rs.271 crores, but that includes for all assets, not only stressful asset but even the normal book. So, on the stressed assets we have provided about 66%, two third of it.

Sukriti Jiwarajka: Got it. My next question is your yields have increased and given the product segment, it does look like your customer is being able to absorb the higher rates. And like you said, you probably have a better ability to pass it on. But I just want to get a sense of the competitive landscape in the sense that is competition being rational? and have everyone raised rates in the core products in home and gold in business loans also?

Nirmal Jain: No, you are saying competitive pressures on the yield, on the interest rate?

Sukriti Jiwarajka: Has everyone been rational enough to raise rates to the same extent?

Nirmal Jain: Good question. In gold loan, in the last financial year, almost from September to March, people were actually quite irrational in terms of the interest rates that they were quoting, like 49 basis points per month and many of these players have cost of funds more than that, and they thought that they will get the customer and they will be able to raise the price when they default or whatever. So, I think the industry and the cutthroat competition in gold loan, is easing now, because most of the players are now raising money and becoming rational. So, one is that rationally increasing the price say 90 basis point- bank rate has gone up, the interest cost might have gone up by certain basis point that is one part of it. The second one is that teaser rate which was like spoiling the market, that tendency has reduced significantly. See 50, 100 basis points price pass on in this industry is never difficult. But what was challenge in the last one year was, that many players were coming with a teaser rate which were completely irrational below their cost and obviously, customers actually see this over six months, nine months that the rates that were promised to them when they took the loan, and actual is very different. So, that tendency is getting away and which is a good sign for the industry.

Sukriti Jiwarajka: And in home loan and business loan are people raising rates, like we have?

Monu Ratra: Yes, so it has moved in tandem and right through whether it is the public sector banks or the private HFCs, or private banks, everybody has moved in tandem. So, there is no widening of the gap created by us increasing the rates.

Sukriti Jiwarajka: Clear. Also, the business loan strategy is not entirely clear to me, a few quarters back, you all had said that, you're going to start to focus on this. Is it part of the growth portfolio? because I do see that it does seem to lag the other core growth segments and what do you want to grow? you want to run down the unsecured booking? can you just re-explain the strategy?

Nirmal Jain: You are asking about strategy for housing finance company or for the group?

Sukriti Jiwarajka: No, the business loans.

Nirmal Jain: Okay. So, business loan if you see 75% is secured. And so, in business loan there are two parts of business loans one is which we do through HFC, which is led by Monu, where there is mortgages against the loan against property. The other is we do digitally which is unsecured which is done through parent company, also we try to get significant part of it insured but there the ticket size is small and loans are unsecured. So, what we are trying to do digitally is more focused on unsecured but what we are doing through our network in particularly the housing finance is mortgages. The split is around 75:25, so around 70% plus is secured and 30% is unsecured. Both the businesses, both the segments will grow.

Sukriti Jiwarajka: Okay and the business from Open will come into your digital unsecured portion?

Nirmal Jain: Open will come into unsecured to start with, with little bit of time we can get business from there for secured home loan also.

Sukriti Jiwarajka: Okay, can I squeeze in one more question?

Nirmal Jain: Please go ahead.

Sukriti Jiwarajka: I know the regulatory limit is much lower but At 15% tier I is the fundraiser likely in the parent in this year?

Nirmal Jain: In terms of co-lending model and the assignments transactions, probably they will gather momentum in the second half. We won't need capital, and actually the capital that we raised in HFC, we will make sure that that is also utilized productively and is leveraged adequately so that we generate enough ROE. So, at this point in time, there are no plans to dilute equity in the parent.

Moderator: Thank you. Next question is from the line of Amit Mantri from 2.0 Capital. Please go ahead.

Amit Mantri: Sir my question is on the provisions front, so this quarter we have done almost 2.9% of the book on an annualized basis as provisions in microfinance,. So, what is the credit cost guidance for the full year that we have now, because last quarter you had given a credit cost guidance of 1.5% for this year. So, as of now what is the guidance of full year?

Nirmal Jain: Actually, what you're saying is right, that the provision is higher than expected and almost like Rs.100 crore of additional provision in MFI so now it should be between 1.5% to 2% for the whole year. If you see now, the provision is around Rs.250 crores for the quarter on a 52,000-crore plus book and so full year we should be anywhere between 1.5% to 2%.

Amit Mantri: This provision is on the own book, which is almost around Rs.33,000 - 34,000 crores. So, because the rest of the book is anyway we don't take the risk on the asset?

Nirmal Jain: Yes, I stand corrected, what you are saying is right that the provision is on own book which is Rs.34,000- 35,000 crore and even the percentage I calculated on that basis.

Amit Mantri: And, now in the presentation you have guided that even another two, three quarters, you will continue to see a high rate of provisioning and after that it starts tapering?

Nirmal Jain: So yes, what you're saying is right, that's why I'm saying that we may end the year with 1.5% to 2%. There are two things - one is the provision amount that we take, the MFI additional provision may come, it may taper off after a period of time, but it can continue in the next quarter. So, one quarter we have already seen, probably we will see some impact next quarter as well. But unless there's something unexpected that happens, provisioning should start easing now from the next quarter.

Amit Mantri: Because if we continue to have the current run rate, then the provisioning will obviously be much higher than 2% because with currently Rs.250 crore run rate, if we have for even two, three quarters, then the full year provisions will be probably more than Rs.800 crores, so if then our book becomes Rs 40,000 crores, it's still higher than 2%.

Nirmal Jain: Yes, so what you are saying is right but then obviously our expectation is that the provision will fall.

Amit Mantri: So, in the microfinance book, when you look at the stage two plus stage three assets, that is around Rs.600 crores as of now, and corresponding to that, we have say Rs270 crores of provisioning and even if you take out some standard asset provisioning, we still have over Rs.200 crores of provisions that are corresponding to that. And from the other place that we are hearing on the 30-to-90-day book, most of them seem to have +90% collection efficiency. So, how much of this stage two book is expected to slip into NPA?

Nirmal Jain: So, now when you say stage two, up to 60 days if you look at it, 90% collections should happen. So, 60 to 90 days, it goes into a little lower and the 90 days would become even more difficult. But, this restructuring thing is new, because one is that people on the regular basis don't pay one, two, three installments, and that people who are allowed to take some time off and then they are asked to pay back as things become normal. So, this should be in line with the industry, and what we've done in last quarter is that we have increased our collection force, in terms of teams, we have separated the sales and collection, some of the people who were earlier in sales, we identified them and have put them in collection, we have put out a proper incentive scheme for them. So, we want to handle this on a war footing so that this gets resolved properly in next one or two quarters.

Moderator: Thank you. Next question is from the line of Harsh Shah from L&T Mutual Funds. Please go ahead.

Harsh Shah: Just couple of questions, firstly on few of your business segments like for example gold finance, how has been the competition intensity now and what has led to increase in yields on quarter-on-quarter basis?

Nirmal Jain: Competitive intensity is easing and the cutthroat prices, they are now going out of the market. So, what happened is that with these teasers schemes, we also sort of tried to follow the industry, but very quickly we withdrew them in the last quarter itself. We realized that even the volume growth is slower sometimes, and we have to sacrifice something, but we would rather be and as our tagline is "Seedhi Baat", that we will be more transparent state forward to the customer that this is the interest rate, rather than saying something else and charging something else later on. And so, last quarter we suffered, this quarter we are little bit back and hopefully yield should improve little bit from here also.

Harsh Shah: Correct. So, I was asking about competition because of the perspective that there are other NBFCs like for example yesterday, Bajaj also very aggressively commented that they are now starting to open standalone gold loan branches aggressively and also will offer golden loan in existing branches. And at the same time though customer base is different, but bank competition intensity continues to remain the same, earlier there was this hypothesis that once such kind of competition is seen, you come down the yield curve and overall NIMs and ROA in this business segment will get depressed. So, does this philosophy still remain the same or you think that from your overall business dynamics can improve and we can generate superior returns versus last one or two years?

Nirmal Jain: So, our yield actually compared to the larger golden players have been lower historically. Secondly, what we have learned in the last one year, this gold loan competition and cutthroat pricing wont matter much since the market is so vast and the customers are looking for many other things. So, it may not be the right thing to fight on price and if somebody is reducing the price and you just panic and do something so, there will be some pockets where you may have some volume sacrifice but there are some other pockets where you still have your strength in terms of brand, service and customer connect. So, we would be continuing with the fair pricing.

With gold loan what happens people think 17%, 18% price is very high and high margin, but what people don't realize is that the operating cost to loan is also 6% - 7% or it can anywhere between 5% to 8% depending on the scale, like Muthoot kind of large players might have 5% or close to that and the smaller players whose volumes are lower than that can be 7% to 8% also. So, it's not that 17%- 18% straight away going to margin so if you do pricing which is more intense or like lower, then you discover that business might become loss making for you. But with our geographies, our areas, our branches, and our brand and connect with the customer we should be able to maintain our yields.

Harsh Shah: Okay. And you had mentioned that you have opened around 200 branches, any specific breaker what kind of businesses these branches will cater too?

Nirmal Jain: Out of this 50 branches are for housing finance, so now housing finance we only have about 330 odd branches so relative to what base we had, we are scaling a bit faster in housing finance because as ADIA money comes in probably Mr. Monu and his team will have more ammunition. Monu you want to talk about it?

Monu Ratra: Yes. so thank you. So, we are looking at expanding our footprint in HFC business, which earlier was moderate and with this ADIA money, we are moving to tier two, tier three towns in specific states. So, we believe that there is a vast opportunity out there for affordable housing, and we should see some serious scale up of the housing loan business in the coming years.

Nirmal Jain: So, other than that the braches are there for microfinance and gold loan also.

Harsh Shah: Understood. Just last question from my side, your cost of fund has come down this quarter on a quarter-on-quarter basis. So, was it re-pricing, was it smart ALM management, what was it?

Nirmal Jain: It has come down only by 10 basis points, so if you look at people are talking about interest rate increase, but the current interest rate even after increase are lower than what it was say any time before 2018. So, what happens is as older loan gets repaid, and we borrow now at a relatively better rate, the interest rate comes down. And also as our financials have been consistent and our credibility with the bank is already there and banks and the lenders have their own scorecard. So, we are able to negotiate a little better as the liquidity is improving.

Harsh Shah: So, what's your outlook for cost of fund when you're entering Q2 ?

Nirmal Jain: If the RBI increases the rate and the liquidity tightened, the liquidity is very important factor, just not the RBI rate. So, there can be some impacts, so I don't think that if the interest rates are taken higher across the system and across the economy will remain in a loop, but hopefully we should do better than our peers.

Harsh Shah: Understood. Just one last thing that I want to squeeze in if I can, since we are very aggressive on co-lending and off book and also we have great tie ups with banks, does that side of the business help us getting a better pricing on our liability side ?

Nirmal Jain: Yes, relationship is good but even their rates are tied to MCLR. So, like in case of home loan, if we take a price increase for the customer, even that goes to banks also for any other process. So, the co-lending by itself will not help reducing or increasing cost of funds. But only good thing about co-lending is, that it is like the loan term or financing is coterminous with the asset. So, suppose you are giving home loan for 15 years, it is very difficult to borrow for 15 years in Indian market because in the market for long-term borrowing such long term tenure don't exist for corporates or tenures are very low. But when you do a co-lending then it almost becomes like funding for 15 years but you don't have to again refinance it. So, it's taken care for the entire tenure of the loan whatever it be, just repay it can get sorted but, so as the co-lending advantage is that the asset liability matching is automatic and 100%.

Moderator: Thank you. Next question is from the line of Saptarshi Chatterjee from Centrum PMS. Please go ahead.

Saptarshi Chatterjee: In Construction and real estate business last quarter, we had around stage two, stage three together around close to Rs.250 crore exposure this quarter this has come down drastically, can you please give up the breakup of write off and recovery in this?

Nirmal Jain: No, it's difficult to give breakup of write offs and recovery but, some has been written off and there is some the recovery as well. And also there are new loans also in this. It's not that we are settling it down but the new loans are from HFC for the approved project and of smaller amount so, it's a mix of this and even the DCCO portfolio what we had has come down now. So, DCCO portfolio which last quarter was Rs.890 crore now down to almost Rs 490 crore.

Saptarshi Chatterjee: Understood. But the reduction would be largely like write off or would it be more or less recovery?

Nirmal Jain: Both. It's a combination of both the things. Part recovery, partly write off kind of thing.

Saptarshi Chatterjee: Okay, sure. Second question is we have high coupon dollar bond of Rs.2400 crore, earlier you have talked about buying it back, but can you please talk about how much quantum and maybe timeline for buying this back?

Nirmal Jain: So, we have a done a USD 400 million total issue out of which we bought back some and USD 323 million is outstanding, and which is due in April next year, but what we plan to do is that we'll try and buy back more and so by the time the maturity comes the amount of outstanding may not be very significant and they are fully hedged.

Saptarshi Chatterjee: Okay. And in the annual report it was mentioned that in the investments books you have around two exposure of total Rs.1000 crore in the IIFL One Value Fund Series B, and C, can you please talk about which are the constituents and how the accounting of income from this book will come?

Nirmal Jain: So, these are some assets that we've transferred to the funds primarily. And the accounting is based on NAV. So, every quarter NAV is computed and based on that accounting will take place.

Saptarshi Chatterjee: Okay, so every quarter it will come under the non-fund-based income right?

Nirmal Jain: Yes, if there is a change in NAV then it will come there.

Saptarshi Chatterjee: And this will be majorly real estate exposure, is it fair?

Nirmal Jain: Yes.

Saptarshi Chatterjee: And one last thing is, in the AUM, can you please quantify how much would be floating and how much should be fixed in the interest rate?

Nirmal Jain: Home loan and LAP are floating primarily and other than that gold loan and microfinance loan will be fixed. But in a way that way everything will be floating because we'll always have flexibility in the price. But practically speaking, home loan and LAP are floating and the smaller tenure loans are fixed.

Saptarshi Chatterjee: Understood. And in one of the slides where you report the portfolio yields across the segments. does it also include the assignment income, or it is only pure interest income?

Nirmal Jain: No, this is interest income.

Moderator: Thank you. Next question is from the line of Ray Ponda from BCP Securities. Please go ahead.

Ray Ponda: So, in regard to that MTN dollar bonds, there's a maturity later on in April. I believe somebody raised that question, I just want to make sure that I heard that right, that you guys intend to gradually pay it it off and don't plan to extend that notes any further is that right?

Nirmal Jain: Yes, that's right. So, we will be able to pay it off based on RBI guidelines, it is a little complicated formula by which is calculated how much you can buy back. But if you can have ECB which is external commercial borrowing dominated in dollars, you can use that money to buy back. So, at this point in time we don't have any intention to renew the dollar bond because the cost is significantly higher than our borrowing cost locally. So, what we intend to do is that we'll pay it off gradually, and whatever is balance we will pay it off on the maturity day. That's what our current plans are, you are right.

Ray Ponda: Understand. It appears that India is pretty close to the other remaining emerging countries in Southeast Asia. It seems like a lot of them, they either redeem it through sort of local loans, or they just somehow have extra cash and they will intend to pay off as fast as they can. That's how I interpret or how can I see it now?

Rajesh Rajak: Yes. So, if you see the USD 323 million that is outstanding, and in terms of liquidity that we have as of June end, that's about UDS 700 million in rupee denomination. So, while we plan to buy them back before their maturity, but on their due date also it should not be a problem to us to redeem them because the rupee liquidity that we have on our balance sheet. So, RBI rules prohibit us from prepaying it using rupee liquidity but on the due dates we can always use the rupee liquidity that we have.

Moderator: Thank you. Next question is from the line of Vivek Ramakrishnan from TSP Mutual Funds. Please go-ahead sir.

Vivek Ramakrishnan: I have two questions. One is on the capital adequacy ratio calculation itself; it has decreased from 16% to 15.3% in March. And if you see your loan book and securitized book, you have to provide capital for securitized book and it also has barely grown. So, what explains the different capital adequacy and given the fact that we are doing co-lending would, gearing be a better ratio to look at your company, that's question number one and question number two, is I heard Nirmal's mark over the center of the economy, do you expect collection efficiency to go over 100% as going to the next quarter, because a lot of the COVID related problems will be over. And that bring down the NPA numbers. Overall, it will take a little time I can understand that, because there still will be one, two payments behind. But do you expect the collection efficiency to go beyond 100%. Thank you.

Nirmal Jain: So, collection efficiency technically if it goes above 100% then it will have to come down because it can't be over 100% forever, because so the way they calculate is that their overdue amount and the due amount, and what you're collected is the numerator, so it can be over 100% only for a short time period not for a longer time period. And only if it was lower, then it has to be bounced back to above 100% to catch up. And about your question about capital adequacy, Rajesh maybe you can explain.

Rajesh Rajak: Yes, so Vivek, this capital adequacy is obviously for the standalone company. And in the standalone company our loan book primarily comprises of gold loans. Quarter one was a bit subdued just like any other quarter as far as assignment, though the volumes were high, but compared to say March end or the amount that we distributed or the assets that we originated, was little subdued. So, our gold loan assets were higher to the extent of Rs.1000 crores on balance sheet, and that explains it, but then with increased level of assignment in the second quarter, which is the current quarter, we should fall in place back to the earlier levels.

Moderator: Thank you. Next question is from the line of Ayush Vimal from Clearview Capital. Please go ahead.

Ayush Vimal: I had two questions on the gold loan book. The first question is, what is your outlook on the gold loan book in the light of falling gold prices, the reason I'm asking this is because a lot of the larger gold companies seem to have derived their growth over the last four, five years from the change in prices of gold rather than tonnage. So, I just wanted to check how it's going to impact us in the future if the trend continues?

Nirmal Jain: So, actually in India, the fall in the gold price has been lesser than the global because the duty has increased. But as the total prices continue to fall, obviously your ability to loan on the quantum of gold reduces. So, that will have a negative impact on the growth and the growth can slow down for the gold loan industry as a whole. We should be able to gain market share in the organized sector with our increased network of branches. But of course if the gold prices, what you are saying is right that the last two, three years and particularly 2021, the significant increase in gold loan assets of the gold loan companies are primarily because of the gold price increase. So far we have been doing better, we have about 10% to 12% gold tonnage growth in our vaults and hopefully with the expanded network, we should aim little higher. But your point is correct that if the gold prices go down the industry growth will also slow down.

Ayush Vimal: Thank you sir. One more question that I had on the gold loan book is, I see about 20% of the loan book exposure to Gujarat. So, just wanted to check on whether we have lumpy loans in the book, if you could tell me what is the proportion of the outstanding loan book whether ticket size has been more than one lakh? that will be very helpful

Nirmal Jain: So, what had happened is that we were little late entering in the gold loan business and strategically we saw that the earlier players were very widely entrenched in South. So, we started with Gujarat and that as a flexi state, so we have more than 350 branches in Gujarat alone. And the gold loan book is very granular and distributed, so there is no lumpy exposure at all in this. So, any of our gold loan book anywhere in the country is all retail.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go-ahead sir.

Deepak Poddar: So, I just wanted to understand first of all, on your credit cost, now you mentioned about 2% of credit cost for this year, maybe 1.5% to 2%. So, even if I take the higher band of that 2%, so, we are looking at maybe Rs.750 crores?

Nirmal Jain: Around Rs.800 crores, book will also grow.

Deepak Poddar: Yes, assuming the 25% growth in book. So, Rs.250 crores we have already done so, we are left with Rs.160 crores kind of a credit cost per quarter Rs.160 to Rs.170 crores for the remaining three quarters in this year. So, ideally what we are saying is that from this quarter onwards, our credit costs should normalize is that the right interpretation?

Nirmal Jain: That's what logically should happen, but nobody has a precise view of the future. So, this quarter onwards, next quarter, all these quarter we should see it going down.

Deepak Poddar: Provision should go down quarter-on-quarter, right?

Nirmal Jain: Yes.

Deepak Poddar: And overall we are looking at 1.5% to 2% for the entire year, right?

Nirmal Jain: Yes, that's right.

Deepak Poddar: Okay, understood. And sir my second query is regarding, we have been guiding about AUM growth of 25%, a similar growth on PPOP is what we might be looking at?

Nirmal Jain: Yes. Some of the impact also came because of the deemed NPA which came from the newRBI circular last quarter. So, that also has led to increase in credit costs.

Moderator: Thank you. The next question is from the line of Mudita Nahar from Abakkus AMC. Please go ahead.

Mudita Nahar: Sir just couple of questions, sir in the MFI book disbursements were quite slow last quarter. So, how is the disbursement picking up from July?

Nirmal Jain: So, actually, last quarter we were focusing lot more on setting up collection infrastructure and collection apparatus in place. So, this quarter onward, the disbursements will pick up.

Mudita Nahar: Sir how much would be the percentage?

Nirmal Jain: So, if you see microfinance disbursement last quarter we did Rs 1,374 crore vis-à-vis around Rs.2500 crore in the previous quarter. So, we should look at something like Rs.2000 cores as a normal number in the quarter.

Mudita Nahar: Okay. And sir on the employees expense, quarter-on-quarter the employee expenses increased drastically by 10%. So, is there any involvement of variable expense in this quarter?

Nirmal Jain: No, our salary increases we make it effective from 1st April. So, this year, 7% - 8% of that would have come because of salary hikes alone.

Mudita Nahar: Okay. And on the securitization book, in the last seven to eight quarters this is the lowest securitization done in a particular quarter, so any color on that sir?

Nirmal Jain: See, because the co-lending has grown now. So, that obviously is integral to the book that could have been securitized otherwise. So, if the co-lending and assignment grow, then obviously securitization will slow down.

Mudita Nahar: Okay. So, moving forward what is the trend that we can expect out of this sir?

Nirmal Jain: We should look at co-lending, securitization and assignment together. These are all off book. See sometimes it happens that there are like say foreign banks, they only take securitized and they don't take assignment or co-lending. So, they're offering a good rate then you can do a transaction there. So, you should look at the three together as one pool, as off book.

Moderator: Thank you. Next question is from the line of Akhil from Axis Mutual Funds. Please go ahead.

Akhil: I joined late, maybe you may have answered this question, sir wanted to understand this decline in stage three book last time, we also had something which was classified as a deemed NPA, now has that subsided on to the stage three, or we have done away with it, sorry just wanted to understand what has happened?

Nirmal Jain: So, in the stage three we have taken some write offs and we also provided for it. And some resolutions have been done. So, it's all put together what we're seeing is the decline, so it was about a little over Rs 1074 crore last quarter.

Akhil: No, last time if I combine your normal stage three and stage three including the deemed NPA, it was closer to Rs 1,857 crore, which has now come down.

Nirmal Jain: No, it was Rs.1074 crore. If you see the slide so there is Rs. 1,074 crore which includes Rs.783 crores. So, there's a little bit of decline 10% to 15% this quarter.

Akhil: Got it sir. Sir last piece on the construction book, where we have seen a decline in your stage two and stage three. Could you throw some light on what exactly has transpired, is it a write off or is it repayment that has actually happened?

Nirmal Jain: So, we are doing certain aggressive settlement and write offs also, to bring this book under control.

Akhil: Okay. So, largely could we ascertain this to say write offs because the book has actually also declined, last time the book was closer to Rs.2900 crores, which this time has come down so?

Nirmal Jain: So it's combination of the two things – write-offs and settlement.

Moderator: Thank you. Next question is from the line of Anusha Raheja from Dalal & Broacha. Please go ahead.

Anusha Raheja: I just want to understand you said that you're looking at AUM growth of around 25% odd. So, I want to understand where the growth will come from because with the drop in the prices of the gold, AUM growth will be very difficult to come there. And on the MFI portfolio, also the growth will not be that significant, so large part of growth, if AUM has to grow by 25%, home loans will have to grow at a much higher rate. So, do you foresee that high growth is possible there, what will drive this?

Nirmal Jain: First gold loan will grow maybe at a slower pace in case gold prices continue to fall or fall significantly. So, there are two assumptions here, first of all, the gold prices will fall, but we don't know about it. And even if gold prices fall then we may grow slower, as the tonnage growth will grow at least 12% to 15%. So, that is one, secondly home loan will of course grow, but even microfinance now will start growing because, as I said the disbursement in the first quarter was lower as we are focusing more on collection but the industry is growing and microfinance also we should see good growth and then the fourth core product is business loan. There also, the growth will be there, I don't think that it will remain static, it will also grow.

Anusha Raheja: Okay. So, over the next two years timeframe, how do you see I mean, this number panning out?

Nirmal Jain: Home loans would grow faster because that is how we got that company also funded by equity. Gold loan is again, a little bit dependent on the gold prices. But, given our expanded network, we should grow that also. MFI industry looks good for next two years, because in the past the difficult phase for last two, three years is almost over so this should grow. And in terms of business loans, the base off is not very big. But, I don't see any issue there also, in terms of growth so that all look good, but in terms of you can probably say that, relatively home loan will grow faster, and microfinance followed by that and then others,

Anusha Raheja: Okay. Also, on the cost of funds side over the next six months to one year, there will be increase in the cost. So, assume that you pass on to that cost, will it impact growth and on that higher lending rates how do you see your book from asset quality standpoint?

Nirmal Jain: So, the cost of borrowing, how much it goes up - again my personal view, and everybody can have a view on this because nobody knows future with certainty. So, if it goes up by 50 basis points or whatever, I feel we will be taken in stride. Now, if the cost goes up 100, 150 basis points, it may impact and more maybe in the mortgage or the home loan demand because that is little rate sensitive, more than others, but one also has to look at the economy because, the interest rate hike has impact on the economy growth as well. And that has in turn impact on the demand for credit. So, many of these things are linked, but the way things stand today, the economy seems strong, and then hopefully everything should be good.

Moderator: Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Nirmal Jain: Thank you, everybody for being in the conference. And in case you have any more queries or any questions, you can always reach out to our Investor Relations or CFOs department. Thank you and have a good day. Thank you.

Moderator: Thank you. On behalf of IIFL Finance Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Kindly note that no unpublished price sensitive information was shared or discussed during the Earnings Conference Call