

March 13, 2024

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
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Sub: - Investor call transcript

Dear Sir/Madam,

In furtherance to our earlier intimation regarding the Investor conference call dated March 04, 2024 and March 05, 2024, please find enclosed herewith transcript of the said conference call held on Tuesday, March 05, 2024.

Further, we hereby confirm that no unpublished price sensitive information was shared or discussed during the said conference call.

The same has also been made available on the website of the Company, i.e. www.iifl.com.

Kindly take above on record and oblige.

Thanking You,

For IIFL Finance Limited

Kapish Jain
Chief Financial Officer
Email Id: csteam@iifl.com
Place: Mumbai

Encl: as above



“IIFL Finance Update Conference Call”

March 05, 2024



**MANAGEMENT: MR. NIRMAL JAIN – FOUNDER & MANAGING
DIRECTOR, IIFL FINANCE**

Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance 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 Mr. Nirmal Jain – Founder and Managing Director. Thank you and over to you, sir.

Nirmal Jain: Thank you. Good morning. I will address the concerns which arise from RBI’s action against our Company. So, first I will try and explain the issues which RBI pointed out in their communication through PR and then the action that we are taking and the way forward.

The major concerns what they have mentioned are certain material supervisory concerns observed in gold loan portfolio, serious deviations in assaying and certifying purity and net weight of the gold at the time of sanction and at the time of auction upon default and breaches in loan-to-value.

Now, these are connected points, which I will just try and explain how and what they mean. So, in the branches when our people disburse a loan, the gold is tested and based on a certain purity the loan is given. Typically, when our internal audit which is our own audit team, they value the gold later as a part of audit process and also for gold sent for auction, at that time there can be variation because the gold testing is a very manual and a subjective process, on the stone, the gold is rubbed and there’s acid, and based on the color, the person has to make an assessment whether it’s 24 carat, 22 carat or 20 carat. And obviously, the audit team is more conservative and their assessment many a times can be lesser in terms of quality than what branches and the sales-oriented people do.

Last year, we had 18.89lakh cases of disbursement, out of which 82,000 cases have gone for auction. RBI has just taken the samples that were sent to auction and obviously there, the variation can be higher because these are the cases which have defaulted, so there can be accumulation of mark-to-market interest and the quality difference that will be higher. So, their point is, because the net weight what is done by our internal audit team is a notional weight where the physical weight is adjusted for the quality. Their point is that if they take the net weight which is as the audit team post facto has certified, then there is LTV breach. We have taken corrective action to make sure that the differences are minimal in terms of the assessment of gold the branches have done, and the audit team does.

But I just want to make again one point very clear that at the time of disbursement at the branch level, based on the branch assessment, which is given in the customer certificate, there has not been a single case of LTV breach. So, the deviation in assaying or certifying purity, net weight at sanction and auction and breaches in the LTV, they are all connected points and they are basically as I said based on the net weight done by our audit team, then the packets go for auction

which is adjusted for quality, based on that if you calculate then probably you will find that the LTV is breached. Because what branches said 22 carat, post facto audit says 20 carat, obviously, the value will be lesser. But in any case, we are putting in stronger systems in place to make sure that these deviations are minimal.

Also, I just want to bring to everybody's notice that all our packets, most of our co-lending partners open each and every packet and they make their own assessment of quality and the weight.

The second point is related to cash which is in excess of the statutory limit. So, we have been disbursing and collecting cash up to Rs.2 lakhs, whereas RBI's point is that your disbursement cannot be more than Rs.20,000 based on certain sections of Income Tax Act. Now, the Income Tax Act interpretation is not clear and different people have different views on that. And almost every NBFC in the industry is giving cash up to Rs.2 lakhs. But nonetheless, we are making sure that we comply with this also and we stop the disbursement of above Rs.20,000 as soon as we are allowed to do as the fresh disbursements.

The Third Point is about standard auction processes where last year from October, we followed e-auction by Auction Tiger. Now that is an independent platform which is also used by large banks like SBI and Bank of Baroda. We thought that a taluka level auction... because when we got almost 3,000 branches across the country, smaller taluka, practically may not be feasible to fetch the best price for the customer. And e-auction is in a way a transparent means to discover price and get the best price for the customer as well. Nonetheless, RBI circular has been very clear, the auction should be at a taluka level and we'll make sure that we comply with that also.

The third point is about lack of transparency in charges. The charges we have mentioned in our customer receipt as well as on the website. But this confusion has arisen from one charge. So, when we actually send notices to customers about auction, we charge Rs.200, and many a times customers will repay and the auction will be averted so then they are not charged anything extra. But the actual auction happens when there's a charge of Rs.1,500. But this extra Rs.1,300 we charge only when the actual auction happens.

So, RBI's point was that even if an auction does not happen, you charge Rs.200. But there is auction notice or auction intimation charge which is also what RBI requires us, to send these notices physically, so these are the legal and the courier costs that we try to defray by these charges. But we've made it very transparent, separated the auction intimation charges and the actual auction charges. So, these are the major concerns which RBI has pointed out and I have tried to explain that what they mean and what we are trying to do there.

Now from the investors' point of view, I think I would like to address a couple of issues about liquidity and cost. So, we have adequate liquidity, we always had at a group level and we always disclose these numbers at quarter end. Further, now till this issue is resolved and RBI allows us the fresh disbursement, we will continue to collect money from the repayments. And from that perspective, I think we are adequately covered for liquidity in the foreseeable future, and we

don't see any challenge there. We have four businesses. The RBI has audited all of them. The only business that is impacted by this action is gold loan, but two-thirds of our other businesses continue, and also, we shall try and double our efforts to cross-sell and sell the other products from the same branches. These branches are at fixed cost structure of monthly about 65 to 70 crores and our NIM on the existing portfolio is about 125 crores on the gold loan portfolio. So, I'm talking about gold loan cost and the gold loan NIM broadly. Typically, these portfolios, they run down in a natural course over 7-8 months. So, I'm just trying to give a perspective of the liquidity and the cash flow and the cost that will be impacted by this action.

So, we understand the concern that such news can generate amongst our stakeholders. However, I want to make it unequivocally clear that there are no governance or ethical issues at play. These are more operational and procedural issues which we will address with all our effort and sincerity. Our foundation remains solid, which is built on trust and support that all stakeholders have generously extended over the years.

And I also want to assure that our team is taking immediate and comprehensive steps to address all the concerns raised by RBI. Our team is committed to implement the necessary remedial measures not only to comply with the regulatory standard, but also to exceed them. So, our resolve to rectify the situation is unwavering and we are dedicated to navigate this situation or this challenge with transparency and integrity and utmost respect for compliance standards, regulations and principles that have guided us. So, in this hour of crisis, I request all of you for your continued trust and support. Your belief in our capabilities and mission have always been our greatest strength and together we have weathered many storms and celebrated our success and I thank you for your continued trust and partnership and look forward to navigate this phase together with grace and strength.

We are taking thoughtful steps to address the current situation and our actions are guided by our commitment to all our stakeholders, customers, employees and partners. I just want to say that we are more than a Company. We are a community that serves millions of customers, tens of thousands of employees and channelized bank credit to underserved segments of the society and therefore your support in this hour is very crucial for us.

While this directive of RBI appears to be a bit harsh. I take a moment to express our profound gratitude and admiration for the Reserve Bank of India. Their steadfast commitment to ensure stability and integrity of our financial system is unparalleled with their proactive and prudent regulatory measures that have not only safeguarded interest of all stakeholders and investors but also significantly to the nation's economic growth and stability. So, the guidance and oversight provided by RBI are invaluable, fostering an environment of trust, transparency and resilience across the financial landscape and we are grateful for their visionary leadership, unwavering support and guidance that inspire us to meet our challenges with determination and strive for excellence in all our endeavors.

So, we take corrective action by RBI in a constructive way as an opportunity to introspect and improve our systems and processes, compliance, and controls; to emerge as a stronger player in the long term.

Thank you. With this I open for Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Dhaval from DSP Mutual Fund. Please go ahead.

Dhaval: I just had two questions. First is relating to the timeline that you think would be required to make these necessary changes? And also, in your view how much time would it take for the special audit to get completed and whatever further changes need to be made to get implemented, how many months of business loss do you envisage in this case?

Nirmal Jain: Except for the cash disbursement part of it, which we can implement only when the disbursements are allowed, but more or less we are already ready... we are already compliant with and we have approached RBI for an urgent meeting and whatever special audit they want to do, so we are ready for that. And hopefully this should happen sooner than later, and we'll try and basically request and approach RBI for the fastest process, whatever they want to do for this special audit. We are ready in terms of compliances or whatever they wanted. So, we have implemented those things, and the audit can start maybe immediately.

Dhaval: The second question is relating to the engagement with RBI. So, in the letter, they highlight that they've been engaging with the management and auditor for a while and there were no strong corrective actions taken and hence these steps needed to be taken. So, just wanted to understand how long this process has been going and has this been a recurring remark in their supervision audit that that they conduct annually?

Nirmal Jain: The FY'22 report came to us on 21st September '23 and the next year audit started in 31st October '23, which just about 40-days from there. And I think the comments and the report came in January 18th and after that we had a couple of meetings and so on. I think this has happened very quickly. And one of the key challenges that we had was that, from the receipt of last FY'22 report to FY'23 inspection, there was just about a month. But in the last couple of months, I've met the EDs and a few others and Venkat also had met the team here. So, all the interactions have happened in maybe last 45 days or so.

Moderator: The next question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: My question is related to the securitization and assignments you do. So, when you assign gold, does gold stay with you and it's on your assessment only that loans are assigned?

Nirmal Jain: This is our assessment, gold remains with us, but every packet has a number and the assignment partner or the co-lending partner, they have the data and they do come and check and audit. So,

some of the banks basically check each and every packet that is either in a co-lending or assignment and some of them do as a sample basis.

Mahrukh Adajania: And securitization obviously it's PTC route or it's largely assignment only because securitization there's no need to check, right, because..

Nirmal Jain: It's assignment only. Also, in last year, we disbursed 18.89 lakh gold loans and the total number of complaints that we received from RBI related was about 135 to our gold loan customers. Out of 18.89 lakhs disbursements that we did, last year we would have more than 16 lakhs active customers and 56 lakhs total customers. So. if you really see the number of complaints that have come from RBI are very, very few compared to the size of business that we do.

Mahrukh Adajania: So, basically what will be the normal portion of the assignments that you do as a percentage?

Nirmal Jain: Assignment is 10:90, where the 90 goes to the bank, 10 remains with us and co-lending is 80:20, 80 goes to the bank and 20 remains with us.

Mahrukh Adajania: So. you have 15 co-lending partners. But how many of those would be gold partners because some of them are for home finance, right and some for -?

Nirmal Jain: 6-7 are gold partners for gold loan.

Mahrukh Adajania: And it would not be possible to name them?

Nirmal Jain: The names are in our analyst presentation actually.

Mahrukh Adajania: There are 15 names, right, so -

Nirmal Jain: Across the group actually, yes.

Moderator: The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

V Ramakrishnan: I have two questions. One, I wanted to know about the balance sheet liquidity, I mean, there is this assigned loans which anyway what you have on the balance sheet in terms of maturities of loans and how much liquidity you have and what is the action plan in terms of shoring up liquidity if need be? So. that's question #1. The question #2 is, you had mentioned that they had noticed a deviation at the time of the auction. How much was the deviation in value, I mean net-net, we recovered all our monies, right?

Nirmal Jain: On the first question in terms of liquidity, so at a group level, we have 4,000 crores liquidity... I mean, I will not have precise numbers because that is generally done when the accounts are closed. And on top of that, what will happen is that till this is resolved we continue to collect so that will keep getting added to our liquidity. And in terms of your other question was about the

deviations, last year, as I said, out of 18.89 lakhs disbursement that we did, 82,000 went for auction. What that does is that, you look at the net weight as certified by the auditor of that pool compared to the net weight at the time of disbursement done by the branch and this is our audit team and there were differences. In 55,000 cases, there was a deviation. But as you said that in most of the cases we recovered our money, there is hardly any losses when the auction which had been very, very few and targeted, I mean, negligible.

V Ramakrishnan: Since we all have exposure to individual entities as well, even at the end of the call if the finance team can say how much liquidity is there in IIFL, how much maturities are there? And the collections in terms of the certain probability how much collections, that would be very, very useful? I can wait till the end of the call for that also.

Nirmal Jain: So, maybe we'll get back to you on this.

Moderator: The next question is from the line of Prakriti Banka from HSBC Mutual Fund. Please go ahead.

Prakriti Banka: You mentioned that the issue was with respect to valuation of the gold at the time and by the audit team and there was slight deviation. I'm just trying to understand, I mean, what was the materiality of this because from what you say, it appears like a pretty standard practice of what any gold finance NBFC would be seeing, right, so what was so materially different for RBI to take such pretty material steps?

Nirmal Jain: So, some of the companies, I don't know, they didn't do the current-based valuation also because they take only standard valuation of gold, I mean, but I have the data on this because RBI would audit those companies and they'll be able to compare and contrast. But, as far as we are concerned because this was done only with the sample that goes for auction and not for the entire thing, obviously that is a central where variations can be higher. So, I think in the overall scheme of things, it's not material. If you look at our entire business of the number of customers, the number of business are very, very significant. Whether it's material vis-à-vis other gold loan companies, I don't have an answer to that.

Prakriti Banka: So, again, I mean, when you're talking about this valuation, they found this to be overvalued because they also mentioned that they are also maybe concerned about the customers or was this being undervalued?

Nirmal Jain: So, their concern about valuation would be that if the gold is undervalued at the time of auction, then you realize lesser, and customers will not get the full money or the full credit. There's a concern. So, now the challenge here is that audit will always be a little more conservative in value as compared to branch and that is what we are trying to address in terms of training in the process that we run. But as I said, by far the number of customer complaints that we have because obviously it's customer's personal property and they'll be more concerned than anybody else about the value that they set. And so given the 56 lakhs customers, today we have more than 19 lakh customers active, the number of complaints that have gone to RBI about this have been very, very few and far between. There is a serious concern with the customers, yes.

- Prakriti Banka:** You did mention that you've been engaging with them only for the last 45 days because they did for to say that over the last multiple months, we've been engaging when no outcome has been seen, but you're saying that you're quite prepared, I mean, you did mention that you are going to approach them immediately.
- Nirmal Jain:** So. I'm requesting for a meeting today itself if possible. There's a draft report was discussed and the final report that comes. So, we got our report on 23rd January of '24. So. we got our report about 40-42 days back.
- Prakriti Banka:** In none of the previous engagements with them, did they highlight any observations?
- Nirmal Jain:** They have been highlighting these observations. As I said, from the last year's report and this year's audit commitment, there was not a significant gap. But they have highlighted these concerns, and we are taking corrective action on this. So, some of these issues like cash or the other issues which are there, I mean, we have to be competitive, we have been in the industry. But as these were highlighted, we are taking corrective action on this.
- Prakriti Banka:** You're saying that you're doing at this point of time your disbursement is happening through cash?
- Nirmal Jain:** Today, the disbursement is stopped. Yes, disbursement happens up to Rs.2 lakhs and many of the NBFCs do more than Rs.2 lakhs also. I'm not very sure but banks are allowed to do cash disbursement up to Rs.5 lakhs. But for NBFC, the interpretation is that they can't do more than Rs.20,000.
- Prakriti Banka:** You mentioned Rs.65 crores to Rs.70 crores would be the OPEX of the branches.
- Nirmal Jain:** There is a fixed OPEX of the branches for gold loan.
- Prakriti Banka:** So, this is the monthly OPEX?
- Nirmal Jain:** Our monthly collection is Rs.300 crores from the gold loan portfolio but out of which certain part go to the partners, co-lending, but what we can retain is also on the current portfolio is more than 125 crores. On the gold loan portfolio itself, I'm talking about NIM.
- Prakriti Banka:** Rs.125 crores per month?
- Nirmal Jain:** Broadly. So. These are very quick numbers, but our collection maybe Rs.300 crores, but as I said, there's a significant part of that will go for co-lending and assignments to meet those requirements.
- Prakriti Banka:** Also, just the communication that you are sort of sharing with your branches at this point of time, I mean, you are you sort of expecting a faster run down of the book or I mean what are you

sort of communicating to the branches for that matter to the employees or whatever you are thinking?

Nirmal Jain: So, this is unprecedented. I don't know how the customers in the branches will react to this. But what we are communicating to them is that we comply with the RBI directives in toto and fully and we will try and address the concerns at the quickest and we will engage the RBI to come back and bounce back at the fastest speed. And at the same time till then they have to service the customers and they have to make sure that there's no customer inconvenience. RBI has allowed us to service or collect the recovery process for the existing portfolio. So, there's no concern there, then will basically help the customers with whatever they need.

Prakriti Banka: Also, on this part where you mentioned the lack of transparency of charges, this is only the auction charges?

Nirmal Jain: Rs.200 was the auction intimation charges. And then the point was that if it cannot be auction, why these are auction charges. But the difference is when the actual auction doesn't happen, we charge Rs.200, which is more like auction notice charge, it's not an actual auction charge. But many times after the notice, customer pays, he doesn't go for auction. There are quite a few cases in the queue. So, I will request we brief and not repeated in any case this call I think will be uploaded on the website. This call will be uploaded on the website, so those who have missed the preliminary remarks, so you can listen to them on the website.

Moderator: We'll take the next question from the line of Muthukrishnan N from Sundaram Finance. Please go ahead.

Muthukrishnan N: So, basically the three issues you mentioned right at the beginning of the call, the first one was regarding the quality of the gold one assigned in the branch and your internal auditor, right? So, what was the disparity there like, were the affair undervalued, the gold or something like that. On a transactional level, I would like to understand that. Does this pertain to a particular region or an area the total quantum of gold and the accounts which have fallen under the deviation?

Nirmal Jain: This is not in any area specifically, the second question. The first question, supposing the branch gave a gold loan, which was 30 grams with the way they gave a loan to the customer. When it goes to auction, our audit team does the reassessment of the quality and the weight. So, suppose if they say this is not 22 carat or 20 carat, and they say, okay, there is some stones or something which weight is X and not Y and they say that these are not 30 grams but 25 grams. So, now what happens, when RBI says that at the time of auction you are saying 25 grams, at the time of giving loan, you said 30 grams. And so, if you take 25 grams, then it goes to auction that you wrote about this, which is this is 25 grams is not 30 grams. So, that is LTV breach and that is the deviation in the purity, and net weight of the gold at the time of sanction of loan at the time of auction. The first point is that they've mentioned there. The second is about cash and the third is our standard auction and the fourth is about charges. So, these are the points that are given by the RBI.

- Muthukrishnan N:** So, vis-à-vis the LTV which the branch has given for the customer, it is higher than the value of the gold, is it what I should infer, sir?
- Nirmal Jain:** No, it is higher than the value of the gold as assessed at the time of auction. But the value of gold or the quality of gold is a subject to assessment. So, there is no difference in the physical weight of the gold what branches have done at the time of auction. But the net weight, which is the total weight based on the quality assessment, has been different.
- Muthukrishnan N:** Have the branch made a higher assessment in terms of value related to quality?
- Nirmal Jain:** Sorry?
- Muthukrishnan N:** You mentioned LTV, sir, so I'm just relating that question to that. So, we need to say that the branch made a higher value in terms of quality vis-à-vis your internal audit team and the time of auction?
- Nirmal Jain:** Exactly. So, branch, if there is no case where branch is here more than 75% LTV required by statutory limit at the time of disbursement, based on the assessment of physical weighted quality that the branch did. But more facta audit that weighted quality if applied to the loan which was given earlier, then there is a difference.
- Muthukrishnan N:** That means the internal audit team did at a lower value?
- Nirmal Jain:** Yes, that's right.
- Muthukrishnan N:** One more question related to this. What period does it pertain to this particular set of plan of action?
- Nirmal Jain:** Last year, 2022-23.
- Muthukrishnan N:** Before that, RBI audit has mentioned any discrepancy?
- Nirmal Jain:** No, I mean the inspection was done for 2022-23.
- Moderator:** The next question is from the line of Murthy Nagarajan from Tata Mutual Fund. Please go ahead.
- Murthy Nagarajan:** I want to know what is the liabilities which you have to pay in the next 2-3 years and what are the cash flows which you have got against that across your companies?
- Nirmal Jain:** So, I think these numbers are there in our quarterly presentation. So, I don't think anybody has changed from there.
- Murthy Nagarajan:** What we have been asked is that I think what RBI guidelines is, is it up to one year you require to keep your cash flows positive, right?

- Nirmal Jain:** Yes, that's right. We follow that.
- Moderator:** The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.
- Abhijit Tibrewal:** Just wanted to understand, I mean when someone earlier in the call asked you that, how long it might take. You shared that we are kind of ready to approach the RBI, request them for the special audit. So, given that RBI has already been engaging with us for the last couple of months, like you said, Jan 18th is where you received the inspection report, I mean, why couldn't we have fixed this earlier itself rather than letting it come to, this is what I am trying to understand?
- Nirmal Jain:** So. after RBI inspection, response to a report was to be submitted by 9th March and we were ready with this. But this has come to be ahead of it. So. it's not even a couple of months actually. And we were in the process of fixing it and this has come as a bit of a surprise and quicker than what we thought.
- Abhijit Tibrewal:** So. the second question that I had was around, I mean you've been sharing that out of 18.9 lakhs disbursements, only 82,000 bid for auctions and there was a deviation in almost 55,000 cases and 135 complaints received from RBI from gold loan customers. But these complaints would either have been on, I would say, charges that you levy or for that matter, the auctioning process if the customer is not happy. But I mean the deviations that they've identified in purity of gold and like you shared, there was deviation in when you disburse the loan versus when it went for auctions, the net weight of the gold and the consequent LTV. So. there I couldn't understand, I mean what corrective actions are we taking in particular to this certifying the net weight of the gold and the purity of the gold?
- Nirmal Jain:** So, one of the things is that the branches, when they do their assessment and valuation, we have to make the process tighter where the quality assessment is more conservative and stricter. That is one thing that we have seen. We can also have a much more intensive training processes of making the quality assessment at the branch level.
- Abhijit Tibrewal:** With regards to this non-adherence to the standard auction process, I think you shared that we started doing e-auction on Auction Tiger, which is followed by some of the banks as well, so I mean to kind of address this issue which has been raised by RBI or what is it that we now kind of need to be compliant with the standard auction process?
- Nirmal Jain:** The auction has to be done at taluka level or at a branch level. And that is what RBI's circular and directive is. So, we shall comply with that.
- Moderator:** The next question is from the line of Pratik Chheda from Guardian Capital Partners. Please go ahead.
- Pratik Chheda:** I understand that you received the inspection report in January and now we are in March, and this is when the disclosure has happened when we are now taking corrective action. Is there any other inspection which is going on by the RBI in any of the other products which is still pending,

certain reports, or is there any draft or observation, however trivial it is, any other product which is pending?

Nirmal Jain: No, RBI has done the inspection for all together. So, I don't think they do it separately for products. RBI's inspection for '22-23 is over.

Pratik Chheda: No, no, not for '22-23, I'm asking for any other products is there any other inquiry going on?

Nirmal Jain: There's no other inquiry to our knowledge is going on. The inspection has been completed by RBI. The report has been done and the response is also ready to be submitted. There's no other inquiry or investigation that we are aware of.

Pratik Chheda: And second question is, if there are 55,000 observations out of the 82,000 cases that have gone to the auction, is the Company planning to do another internal audit for all the disbursements that have been made during the year? And how has the internal auditors not really highlighted this in the annual report, because if it is 55,000 cases, it would have been throughout the year, right, it's a very high proportion of cases.

Nirmal Jain: See, the auction cases are the cases which are stressed accounts. So. the probability of these deviations is mostly in auction cases of the stress account, where the customer failed to pay, the interest was accumulated, is more than 90 days, they only go for auction. So, obviously you'll find the probability of findings in deviation are significantly higher in auction cases because they are the stress accounts.

Pratik Chheda: But do you plan to take any action on the other accounts?

Nirmal Jain: Yes, we are taking, the whole process is being done, we are obviously taking a lot of action for this.

Moderator: The next question is from the line of Amol Patel from IDFC First Bank. Please go ahead.

Amol Patel: Whether this will have any financial implication, first of all? Secondly, whether any earlier warnings or any other penalties were imposed on IIFL before by RBI before taking this action? And I would also like to understand what will be the impact if in case generating loans are rolled over on the maturity? So, now because IIFL will not be able to disburse fresh loans, what will be the impact of that on overall asset quality and how are you planning to address this issue?

Nirmal Jain: So. there has been no penalty or any other action by RBI till now. And the second is the financing implication. So. it also depends on how long we take to come back. But I'm personally very sure that we will come back, even longer life, short term aberration like this should not have a major impact on the financial health of the Company or the financial numbers. They can impact till the issue is resolved. But again, as I said, with our most sincere and strongest effort to resolve this at the fastest speed. Incrementally you had about a 5% to your portfolio in the quarter and you

run down the portfolio about 10%, 12% every month. So, therefore very difficult to say what will be the impact but again depends on how long the whole situation lasts.

Moderator: The next question is from the line of Damodar Agarwal from DCB Bank Limited. Please go ahead.

Damodar Agarwal: Was there any specific observation on AML KYC?

Nirmal Jain: No observation.

Moderator: The next question is from the line of Sujay Mallik from Indian Bank. Please go ahead.

Sujay Mallik: I just wanted to ask three questions. First, what is the impact on the recoverability of the pool assets from the direct assignment assets to the bank? Second, is any future embargo on auction anything or auction of the goods if any, loan goes back? Third point is what is the timeline of rectifying this operational issues by the Company?

Nirmal Jain: First question on the recoverability, there is no impact because all our gold loans, the customers are there, and RBI has allowed to do the recovery process and the collection process as normal. So, I think that also answers your second question. There is no embargo on auction or recovery. Very specifically they said that our collections and recovery can continue as normal. And third is how long it will take? So, we have already rectified and put in place all the recommendations of the RBI. Our report has to be submitted on time, which is a couple of days, and this has come. But anyway, we will actually engage with RBI, try and see how quickly we can get their report.

Sujay Mallik: No, Mr. Jain, I wanted to know any internal corporate governance issues wherein you have taken a stand that will rectify these operational issues within a such span of time because it is jittery in the market as of now?

Nirmal Jain: Even if you see, Mr. Malik, RBI's report or whatever communication is, there are no governance issues or even KYC or either issues. So, all the issues are operational and what I will request all of you is to try and understand that we are always trusted and we count your trust going forward. But you can see the communication by RBI as well as with in this call I am making it very clear that there are no governance issues, there are no other issues related to this. All the material concerns they have brought out is in the press release itself.

Moderator: The next question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead.

Shubhranshu Mishra: My first question is around that whatever RBI is pointing out is pretty much business as usual for all shades of gold financiers. Do you think that the RBI action has been fairly harsh, and they could have done something else? Second part of the question is how long do we think that we'll get back in the business – three months, six months, one month? If that can be quantified or some direction can be given to that space. My second question is around assignment. Do we originate loans as bullet loans or term loans? Because if they are bullet loans, my fair

understanding is that we can't do assignments or securitization as per the present regulations. If they originated as term loans. I do understand the fact, sir.

Nirmal Jain: RBI's action it may appear harsh in the short term or the immediate this thing, but I would say that because the businesses are built for long life and sometimes these corrective actions are good to make sure that the system becomes stronger and over long term you emerge as a stronger player. So. I will take it in a positive and constructive way and would like to rectify whatever lapses we had in our system at the earliest. How long would it take? We try to do it fastest, maybe in a few weeks or a month or immediately, but I think it's very difficult for me to comment on that because that's not entirely in my head. But as far as I said in this call that we are ready, and we are compliant with all the observations that they had, and we are about to submit our report to RBI maybe today itself or in a day or two.

Shubhranshu Mishra: The second question on assignment, sir.

Nirmal Jain: There can be co-lending of a loan which are cash loan or a bullet loan. But as I said that our operations will continue rather as usual for existing loan portfolio, collecting, recovery and servicing, I don't see any impact on the loans which have been assigned and which have been co-lent because the gold is there, the customers are there, and the collections are in a normal course.

Shubhranshu Mishra: Sir, I understand all of that. My moot point is, are they originated as bullet loans or as term loans, sir?

Nirmal Jain: I don't think we have a bullet loan originated for this thing. Most of the loans are term loans which are for a period where interest is paid periodically, and the principal is paid when the term is over. That will be the predominant part of our loans. There can be bullet loans, some of them can be on our books and some of them can be co-lent, but I don't think assignment happens of the bullet loan. There is no assignment of bullet loans, but they can be in our books, but most of our loans, I am repeating, they are in the nature of a fixed term where interest is serviced, and the principal stay at a periodic interval.

Moderator: We'll take the next question from the line of Renish from ICICI. Please go ahead.

Renish: Sir, just two questions from my side. One is on this profitability. So, if I look at the standalone P&L, which is predominantly gold loan phase for us and we have generated around 130, 140 crores kind of PAT in Q3. So, is it fair to assume that let's say till the time we resolve let's say the RBI observation, to that extent our profit will get impacted in the next couple of quarters?

Nirmal Jain: So, Renish, all the discretionary cost like advertisement and the variable incentives basically also the advertisement campaign will discontinue immediately. So. marketing cost, which is one of the market line activity for acquiring customers that basically is discontinued. And on our portfolio what we have, we continue to have the interest income. So, the immediate impact will not be so significant, but the impact, if it continues for a longer term, the portfolio runs down

can be significant on this part of the business. So, this is one-third of our total business at a group level. As I said, the portfolio will continue for the time being.

Renish: So, you mean that impact will be lower than what we reported in Q3 because we might save on some of the costs, I mean is that the fair assumption?

Nirmal Jain: Yes, it will save some of the costs and the portfolio we have that continues, that's not everything will run down immediately. But whatever portfolio will continue. Maybe if I assume for a quarter, 10% goes down, then also you have 90% on which you continue, the costs also go down to that level.

Renish: Just last question on this entire segment fees for us, which is roughly 40% of the AUM currently. Do you foresee any risk to that because of the RBI implication or you feel that like the home loan and the MFI in whatever limited capacity we do assignment that will continue?

Nirmal Jain: Home loan, MFI, our business will continue as usual. And the assignment of gold loan will not happen now. So, that is actually paused.

Renish: On this release, RBI did mention about the special audit which will be conducted or might be going on, so what sort of this special audit in nature, I mean, since we have already received the communication from them, and we might have already submitted our responses by now, so what does it mean of mentioning this special audit, sir?

Nirmal Jain: We are complying with it. The special audit will probably to reconfirm whether we complied with that.

Renish: So, the next audit will be limited to whatever observation they have given to us, right?

Nirmal Jain: That is what I would like to believe, but actually because RBI is prerogative, but logically that should be the case.

Moderator: Ladies and gentlemen, this will be the last question for today, which is from the line of Vihag Mishra from Kotak Mutual Fund. Please go ahead.

Vihag Mishra: My only question is that regarding the cash disbursal, what is the industry practice for cash disbursals, or other gold loan NBFCs is also disbursing up to Rs.2 lakhs in cash and thus I felt disbursing cash in other products also up to Rs.2 lakhs?

Nirmal Jain: No other product is a cash disbursal, but other than this, we are disbursing up to Rs.2 lakhs and some of them are disbursing more than Rs.2 lakhs also. And there are many customers who shared their receipts or whatever with us, so at least we have the documents from many NBFCs, that is the same thing.

Moderator: Ladies and gentlemen, as that was the last question, I would now like to hand the conference over to Mr. Nirmal Jain for his closing comments. Over to you, sir.

Nirmal Jain: So, thank you so much all the stakeholders who are there in the call. I really appreciate your trust and support and your confidence that you've shown in us, and we count on your continued support. So, these are the moments where we have to show our resolve and resilience and I'm sure that many organizations as they grow larger they face these kinds of challenges during their life journey, and obviously if our intent is right, our values of transparency, integrity remain uncompromised, we will bounce back stronger. And we also really appreciate because the RBI and regulators measures like this, which may appear harsh in the short term, but basically make the organization stronger from a long-term perspective and more often you are stronger and more competitive over the long-term. Thank you so much. I really appreciate your time and patience in this.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of IIFL Finance, that concludes this conference. We thank you for joining us and you may now disconnect your lines.