"IIFL Finance Q3 FY2022 Earnings Conference Call"

January 28, 2022

ORGANIZED BY: **ANTIQUE STOCK BROKING**

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Moderator: Ladies and gentlemen, good day and welcome to the IIFL Finance Q3 FY2022 Earnings Conference Call, hosted by Antique Stock Broking. 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 call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vidhi Shah. Thank you and over to you Madam!

Vidhi Shah: Thank you Chris. Good evening everyone. We have with us the management team of IIFL Finance represented by Mr. Nirmal Jain who is the Chairman, Mr. Rajesh Rajak, who is the CFO, Mr. Monu Ratra who is the CEO of IIFL at Home Finance, and Mr. Venkatesh N, who is the CEO of IIFL Samasta Microfinance. With this, now I shall hand over to Mr. Nirmal Jain for opening remarks. Over to you Sir!

Nirmal Jain: Thank you and welcome everybody in our earnings call. I will just start with the micro environment, as we see how we have been progressing in our strategy and then I will hand it over to our CFO, Rajesh for more detailed commentary on the results and then we can have Q&A.

All of us are well aware, in terms of surprise element, there is the third wave, very swift but less damaging and hopefully it is tapering off and will be behind us very soon. Without commenting on stock market, as they can juggle in their own manner, the macro environment is looking much better as we are seeing that earnings of the most of the companies have shown significant improvement. The government spending has gone up and in the budget also people are expecting the momentum to continue. We see that the government is spending a lot on health infrastructure as well and last year because of the sudden COVID wave two and three the revenue expenditure was up by at least 0.8% of GDP as compared to the budget estimate and hopefully if the government does not have to spend that money again this year then obviously there will be lot of leeway in the budget to spend more and make sure that the economic growth momentum continues. Besides a lot of ground work has been done on disinvestment and may be LIC IPO will go through, but significant part of disinvestment target will not be achieved in this year, but there may be good news for next year because the government will have a lot more money in a year than they actually need to get the economy momentum right. In terms of financial sector, I think that growth Y-o-Y 9% is healthy, which is moving up from what we used to see around 5% to 6%. The liquidity has eased significantly and the demand for credit seems very optimistic and it looks like the economic activities are picking up, things are improving and credit demand will also look up.

Coming to IIFL Finance, momentum is good. Our core products are showing strong growth and as we step into this quarter, which is seasonally peak quarter for financial services. Whatever credit growth is there, in terms of collection efficiency and asset quality - we are seeing an improvement. In the last few quarters, every quarter there has been some surprise or another and obviously that impacted the reported result. So this time there are two factors that have impacted our provision in a significant manner and also the GNPA as we reported. One is the RBI circular impact which was a bit of a surprise for the industry. It does not really impact the quality of assets that we have in our balance sheet, but it does impact the reported numbers and hopefully as the industry gets adjusted in terms of how to deal with this in the next few quarters the numbers will come back to the normal timeline. But for the time being that has impacted our GNPA as well and besides microfinance, we have faced difficult times with continued impact of COVID wave three, hopefully even those things will get better. Liquidity in the system has improved significantly and if we see our own balance sheet there are Rs.9000 Crores of cash and cash equivalents and undrawn credit lines. This is all time high liquidity that we are carrying which has a small impact on our margins, because of the negative carry that we have, but I think what we have done is a prudent policy keeping in mind the growth trajectory that is ahead of us and also the sudden volatility that can be caused by COVID or other global factors as well. In terms of interest rate and liquidity although they look benign at this point in time, but obviously everybody is talking about and worried about what US Fed will do. Given the inflation situation there, most of the investors are getting prepared for rate hike there but the only question is how much and when and whenever it happens, it can have some impact on the emerging markets, that it always had historically. In India also most experts expect upwards basis for the interest rates. Our belief is that even if there is a rate hike it will be marginal as compared to the base interest rate in India which is already high. India was never at a zero or near 0% interest rate, but from these levels 25 basis points or 50 basis points can be taken in stride. As far as we are concerned, most of our assets are short tenure. We have also in fact increased our liquidity buffer and now in the last two to three years after IL&FS crisis we have tried to make sure that our liabilities are for longer period even at a higher cost so with this we seem to be reasonably comfortable in terms of liquidity as well as catching the growth opportunity. We are in the industry with a lot of digital transformation. =Couple of initiatives that we have highlighted in the analyst presentation this time, one is our DIY loan which is completely paperless, and you can do it in two ways. One is you can download an app called My Money and the entire journey is automated right from starting your application to transfer of documents to transfer of loan amount to your bank account and the same journey can be done on WhatsApp also, which is industry first for us. While many players do generate leads on WhatsApp, but what we have done on WhatsApp is end to end completion of the entire journey, it has seen good traction in terms of disbursement. Last quarter volumes are still small but on the base of quarter before they quadruple and we see strong growth coming in there. Another initiative which we have worked is to make our technology backbone to be very strong and that is Gold Loan at Home. We have started in a few cities. We will roll it out. This product basically targets customers and where the gold can be collected at home and the money gets digitally transferred to customers account. The customer has the flexibility to repay at any point in time. It reduces the interest burden. He can top up or renew the loan and also we can deliver the gold back at customer's place whenever the loan is fully paid. In this initiative also, I think we will have advantage. Our brand is known. The customers have seen our branches and brand and therefore the trust element is higher. Also with this, I hand it over to Rajesh who will take you through the details and then we will have the floor open for Q&A.

Rajesh Rajak: Thank you Mr. Jain. Let me take you all through a brief commentary of our recent results. IIFL Finance profit after tax was highest ever at Rs.310 Crores in Q3 FY2022 up 15% year on year and 6% quarter on quarter driven by strong volume growth. The recorded pre provision operating profit of Rs.650 Crores during the quarter, which was up 6% year on year and 12% quarter on quarter. Loan AUM grew by 11% year on year and 6% on quarter on quarter to quarter Rs. 46,780 Crores. Loan AUM for core products in facts grew faster year on year at 16% year on year and 6% quarter on quarter to Rs. 43,293 Crores driven mainly by small ticket, home loan, gold loan and microfinance loans. 94% of our loans are retail in nature and 67% of our retail loans are PSL compliant excluding gold loans, which are not classified as PSL loans. The largest share of retail and PSL compliant loans are of significant value in the current environment where we can sell down these loans to raise long term resources. In line with our capital optimizing strategy 35% of our AUM is assigned to securitize as of December 2021. During the quarter, IIFL Finance tied up with DBS Bank and Union Bank of India for co-lending of gold loan and home loan respectively. This is over and above our existing tie ups. We added over 550 branches and more than 6000 employees during the current financial year. Cost to income ratio increased to 39% as compared to FY2021 due to expansion in our physical and digital foot print. Analyzed ROE for Q3 stood at 20.7% driven by annualized ROA of 2.9% despite large investment in growth causing in spike in operating cost. Capital adequacy ratio was 25.4% on an overall basis and tier one capital adequacy stood at 18%. These are much higher than the statutory requirement of 10% for tier one and total capital requirement of 15%. A total capital of home finance and microfinance subsidiaries also remained healthy at 31.7% at 20.4% respectively. Our average cost of borrowings declined by 27 basis points year on year to 8.7%. A gross NPA stood at 2.8% and net NPAs at 1.5% as on December 31, 2021. This includes an impact of RBI notification dated November 12, 2021. With implementation of ECL model under Ind-As the provision coverage stands at 133%. Collection efficiency has improved across segments. Microfinance collection showed a marginal dip since Q2 because of higher error collection in earlier quarters in Q2. During the quarter, we raised Rs. 4,300 Crores to term loans, bonds and refinance out of which we raised Rs. 1,100 Crores via the refinancing which included Rs.850 Crores from National

Housing Bank. In addition, loans of Rs. 3,600 Crores were assigned during the year. Cash and cash equivalent and committed credit lines from banks and institutions of Rs. 9,145 Crores were available as on December 31, 2021 adequate to meet not only near term liabilities, but also to fund the growth momentum. We have a positive ALM whereby inflows cover or exceed expected outflows across all markets. Additionally, IIFL Home Finance raised Rs.404 Crores through public issue of secured bonds in January 2022.

Brief digital updates, we continue to focus on digitization and analytics to improve customer experience and enable a convenient one stop shop for customer's credit and investment needs. During the previous quarters, we had mentioned about our digital DYI initiatives for disbursements through WhatsApp and my money app. Disbursements under MSME DYI loans grew more than fourfold to Rs.114 Crores during the quarter. More than 18,000 customers have been on boarded till date under DYI initiatives. Our gold loan delivered at home initiative is also getting significant traction. Disbursement under this initiative grew 31% quarter on quarter to Rs.137 Crores during the quarter. Jhatpat Home Loans, a pan India product for instant home loan on boarding continues to do well as 100% of the loans disbursed during Q3 was sourced through Jhatpat loans. The corresponding percentage for previous year same quarter was 88%. IIFL loans app is being increasingly used for various transactions by customers and has been especially beneficial during COVID lockdown times giving customers ease and convenience of access. We have around 2 lakh average active users on the app for the month of December. That brings an end to the update. We are now happy to take questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Sushant Parikh from HSBC Securities. Please go ahead.

Sushant Parikh: Thanks for taking my questions. I just had couple of questions on the NPA part? If you could just tell us what exactly has been the impact of the RBI circular on overall NPA and if you have taken any additional provisions against the same, and also secondly I just wanted to understand what the restructured outstanding is as of December?

Nirmal Jain: The impact on GNPA is around 30 basis points of the RBI circular. The restructured book movement we have given in the slide number 18, which is now Rs.937 Crores as of December end against Rs. 1,027 Crores last quarter. The DCCO amount has fallen significantly from Rs. 1,800 Crores to Rs.600 Crores as most of the projects have come out of DCCO.

Sushant Parikh: Got it. Thanks for this. Just one more question? Are there any plans on normalizing the liquidity buffer eventually or do we have any pass towards that?

Nirmal Jain: Normally we want to have liquidity for a year in terms for all the contractual liabilities so the current liquidity that we see plus or minus 10% and obviously over a period of time as our volumes grew our book grows, this will also grow. It will be slightly higher at December end, but you can say that around Rs. 7,000 Crores to Rs. 8,000 Crores will be our reasonable number for this book size.

Sushant Parikh: Understood. Thanks that is all from my side. Thank you.

Moderator: Thank you. The next question is from Akshay Ashok from Dalal & Broacha Stock Broking. Please go ahead.

Akshay Ashok: Congratulations on a good set of numbers. Sir I have three questions? First why is the disbursement in home loans this time did not see a pickup on a Q-o-Q basis. Any particular reason and the second question will be this quarter ending if you could just elaborate on whether the disbursements have started with the banks that you have tied up with and what is the progress on that? First if you could just answer these two questions?

Monu Ratra: Good afternoon everyone so if you look at the disbursement in home loans, they look flattish because there was a bit of a pent up in Q2 which we had from Q1 but otherwise we ended December pretty aggressively. December numbers of disbursements were at an all-time high of last one and a half years so we expect that the Q4 should be a much significant number to look at, but yes because of the pent up thing which we had in Q1, which came into Q2, we did very well.

So then as far as December itself is concerned, as I told you we did an all-time high numbers in home loans for the last one and a half years. Then coming on the co-lending part as far as home loan part is concerned, we were able to do a co-lending of above Rs.500 Crores with multiple banks and so that has been a great experience and experiment, which we think is only going to solidify from here so we did above Rs.500 Crores of disbursements under co-lending for home loans and similarly some numbers have also been done from other products like gold loan as well.

Akshay Ashok: So you got into agreements with two banks - Development Bank of Singapore is it? Nirmal Jain Sir told that you got into agreements with two banks?

Nirmal Jain: We have started with DBS and last quarter we done lot of technology integration and testing as we are starting with them, gold loan is something that we are doing with DBS at this point in time so we have multiple banks for multiple products. With Development Bank of Singapore, we have started the gold loan product.

Akshay Ashok: Then last question Sir, this construction and real estate portfolio, the idea was to run it down right? Why in this quarter on a Q-o-Q basis there was a 2.2% growth in your AUM in construction and real estate? Did you give incremental loans because you do not give disbursement for construction so 2.2% AUM growth in this quarter for contraction and real estate is off beat because really the book has been running down for the past several quarters so what was the reason for this growth?

Nirmal Jain: If you see slide 32, we have given a very detailed explanation and what our strategy on gold, on the construction and real estate book is and how should you look at in terms of going forward so one is construction finance, first is that what we were doing earlier was through NBFC, which was against land and against SRA project, which is a higher risk. So suppose you have a piece of land which is say Rs.100 Crores and construction cost may be Rs.30 Crores to Rs.40 Crores, so normally the banks lend only against the construction part of it and that is what we will continue to do through our HFC subsidiary. Now that is where your yield will be lower because the collateral is much superior and the risk is lower because you start construction after you receive all the approvals, but historically many NBFCs supposing Rs.100 Crores land is there, so people would lend Rs.50 Crores against the land. That is something that we have discontinued, but what we will continue to do is two things, one is, through our HFC we will try and fund only the construction part of it and that also with two more conditions that we will try and make sure that they are fulfilled. One is to fund affordable housing projects and not anything else. Secondly we are looking primarily predominantly at green and environmentally responsible or environmentally sustainable projects.

We have signed up with ADB and we are in the advance stage of negotiation with ADB for funding these, so they are quite keen to support construction of green and affordable projects and they will probably give a line of credit which can be used primarily for this. Other than this the earlier funded projects which we had done through NBFC also, we are not taking up any new projects of the similar type but just where there is a last mile funding or a construction or something is required we will continue within the sanction or board approved limit, so those projects will be continued to be funded.

Akshay Ashok: Transfer to AIF - what portion has been transferred to AIF or is the process going on?

Nirmal Jain: When we transferred, we transferred about a third of whatever book we had at that point of time, but then we realized AIF are not great and you end up paying 18% to 19% interest when you can borrow at 8%, and also most of the projects now are seeing a recovery of demands. In the next two to three years' time you should see that most of them get the cash flows coming in. If you look at our CRE book over years then in FY2019 it was Rs. 5,055 Crores. It has now become half, but in the HFC component we will continue to fund some and this is what most of the HFCs will do. If you see very highly established HFCs, they will have some component of their book for developer funding. That basically goes into home loan, also because most of the projects that we fund, you may have a priority access to the customers who are buying housing units there.

Akshay Ashok: Sir thank you that was very helpful.

Nirmal Jain: The slide six will give you a very detailed explanation and what our strategy is.

Akshay Ashok: Thank you Sir.

Moderator: Thank you. The next question is from Abhiram Iyer from Deutsche CIB Centre Private Limited. Please go ahead.

Abhiram Iyer: Congratulations for a good set of numbers. My first question is actually pertaining to the micro finance segment? We have clearly seen a lot of growth here from quarter on quarter perspective or even from a Y-o-Y perspective compared to the total AUM? Correspondingly we have also seen sort of like a big jump in GNPAs that we have not seen even in first wave or towards the end of last year as well? It is primarily just increase due to the RBI new norm or is there any other factor here and what is the company's overall strategy here in microfinance? Are we like sort of focused on growing the book here because the growth rate has been much, much more than sort of the other segments?

Nirmal Jain: So most of the microfinance companies have not yet reported numbers, but I think that the growth has been there for most of the microfinance companies in the last quarter. Secondly in terms of GNPA growth, almost about 1% is impact of RBIs circular and other than that the restructured book has also come down by 20% to 25% so some part of the loan has come out of that also. Then coming to the next part of your question, Microfinance industry has been impacted for last few years several times, but if you look at the business and the customers, they basically borrow loan for income generating activity, so typically under normal circumstances, the performance is very good and hopefully we will have normal circumstances going forward. Then we will see a strong pull back in the GNPA as well as improvement in the asset quality and collection efficiency.

Abhiram Iyer: Got it Sir. Got it and Sir a follow-up question to this? What is the strategy in terms of targeted AUM growth over say the next 12 months?

Nirmal Jain: I think targeted AUM growth should be around 25% or so.

Abhiram Iyer: Over 12 months okay got it.

Nirmal Jain: One thing we must keep in mind is that we are talking about four products and 20% to 30% depending on how our co-lending picks up momentum. because in co-lending is if the bank has a willingness to take more aggressive approach we will be obviously supporting them.

Abhiram Iyer: Got it. Lastly, I have seen that debt has obviously been very robust for the bank and the equity, is there plans still to start in the domestic market here and is there is a sort of talk to return to the ECB markets as well?

Nirmal Jain: At this point in time, domestic market liquidity is good for debt and the interest rates are also going down so if you look at fully hedged cost then it does not make any commercial sense to tab the overseas market through a broader issue, but on a bilateral transaction of ECB if we get a good rate then obviously ECB market is there, but it will be a transaction specific so at this point in time we do not envisage kind of a public issue or a larger issue of bonds.

Abhiram Iyer: Got it. Thanks a lot for the answers.

Moderator: Thank you. The next question is from Thomas Drissner from Abrdn Asia Limited. Please go ahead.

Thomas Drissner: Thank you for taking my question and very similar to the previous one, I was just going to ask on your dollar bond outstanding so do you plan to retire that bond or will you decide at the time in about a year's time whether you will refinance it in the dollar market and what the conditions are like at that time? Thank you.

Nirmal Jain: Our dollar bond was $400 million at the time of issuance. We have bought back whatever is allowed as per RBI guidelines. In fact, we were allowed to buy back more and reduced our cost of funding on an aggregate basis, may be Rs.350 Crores of thing would be outstanding and we got more than $1 billion or $1.2 billion of liquidity on our books, so today I think probably we will repay the bonds on maturity and under these conditions we are unlikely to refinance them but if the interest rates improve for rating or for some other reason then we will look at it, but we have more than adequate liquidity as you can see our from financial numbers also.. In fact, at this point of time also we have more than three times the liquidity to buy back the bond.

Thomas Drissner: Thank you. Very clear and just one quick follow-up? If you were to tap the dollar market again would you reengage with rating agencies if you were to do?

Nirmal Jain: I think we will engage them and if we have to tap the dollar bond market again then we will have a dialogue with rating agencies and let them reevaluate the whole thing and make an assessment. I think the rating agencies also have to catch up because if you look at our capital adequacy, now it is 25% to 30% for subsidiary company. Our liquidity has improved significantly. Our asset profile has improved so we will engage the rating agencies regardless of whether we do bond issue. \ We will engage with them and we will make representations to them on the rating because I think there is a strong case for us to make them look at the numbers, which are significantly better than numbers that were there when they did their assessment.

Thomas Drissner: Thank you. Thanks very much.

Moderator: Thank you. The next question is from Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. Sir I just have one query. In terms of your credit cost so how many quarters away we are from a normalized credit cost of 1% that we have been talking earlier?

Nirmal Jain: Actually it is becoming little bit difficult to answer this question because something or other has been happening in every quarter, like RBI circular or these kind of microfinance situation which we did not expect earlier so hopefully it should happen very soon, but I will keep fingers cross and let us see every quarter how do we get there because every time we say something but something completely unexpected happens so let us keep our fingers crossed and hopefully in this year it should happen.

Deepak Poddar: This year means FY?

Nirmal Jain: CY2022.

Deepak Poddar: And RBI report impact, like provision taken this quarter, so is higher provisioning likely to continue in Q4 and Q1?

Nirmal Jain: The RBI Circular has come in the middle of the quarter but now I think mostly the NBFCs will try and make sure that their collection system as well as contractual arrangement with the customers happen in a manner that you do not get into that trap of having higher NPA and higher provisioning because then it goes into vicious cycle and it impacts the customer's credit rating as well, but I think this impact will taper off in the next couple of quarters like March and June. It will not happen overnight, but I think in these two quarters it should get fully adjusted.

Deepak Poddar: Understood. That's it from my side. All the very best.

Moderator: Thank you. The next question is from Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Sir, I am just looking at the real estate part? You mentioned that around Rs.600 Crores is left in DCCO quarter on quarter? We also see the NPAs in that segment rising, so do we assume that despite DCCO some of these projects could not complete in time?

Nirmal Jain: No. I will not agree with that. The current problem is that with this sudden RBI circular, where even if there is a one day's delay then it has to be recognized in NPA, but this kind of a scenario does not actually increase the risk of the asset, but the reporting is a little different from the reality so what happens in Indian conditions is that the payments get delayed by a few days and obviously you are forced to report NPA but it should not impact the recovery or the quality of asset.

Prashanth Sridhar: What I was trying to understand is specific to real estate. If we look at the performance of the projects, they have come out of DCCO, how do they look? Would any of them have slipped into a NPA or something?

Nirmal Jain: Some of them have been paying after that and some of them have paid a little bit, so most of them are on track. In one or two projects, we have got a developer transfer so we got the project transferred to a new developer who is financially stronger and has a good track record, so I think things are looking better there. The projects which were having trouble, they are now are getting out of it.

Prashanth Sridhar: Is there a watch list or something that you are tracking and are you able to quantify that?

Nirmal Jain: Yes.

Prashanth Sridhar: Just one other question on the gold loan side, this quarter and last quarter from the disbursement you have done, what is the average interest rate and tenure of the loan in gold?

Nirmal Jain: So average interest rate is slightly downward but the tenure has not changed and if you look at our portfolio yield, it has come down from 18% from March end to around 17.4% now, so there was 60 basis points decline on the overall portfolio. The boarding yield which is incremental, might have fallen by about 1% or so. The portfolio yield has come down by 60 basis points in this financial year, which is the entire portfolio of Rs.14600 Crores.

Prashanth Sridhar: That is mainly because of competition?

Nirmal Jain: Yes, it is a massive competition at this point in time. There are many new players funded and also the banks are getting into this in a very aggressive way. Sometimes we have to be pricing the risk properly but at least in the market there is competitor pressure on the yields and we have seen these kind of competitive pressures earlier also, so that happen sometimes. Another thing that is happening in gold loan is that you start with the lower interest rate and those starting lower interest rates have come down to a very level now and if the customer actually is not paying in time or is taking tenure or some other actions then the interest will go up over a period of time.

Prashanth Sridhar: Sure. That's it from my side. Thank you so much.

Moderator: Thank you. The next question is from Sharadh Singh from Laburnum Capital. Please go ahead.

Sharadh Singh: Thank you for the opportunity. Sir continuing on the gold loans so where do you look at these rates stabilizing? Do you see it already bottomed up or where do you expect these to stabilize?

Nirmal Jain: I think some of the players who have offered these low rate schemes and some of them have already withdrawn or they understood that there is no merit in this and may be this quarter or next quarter over a period of time they may stabilize at a little lower level. There will be a down of 50 to 60 basis points but this will stabilize in this and next quarter.

Sharadh Singh: Do you expect the banks withdrawing, the banks only being temporarily aggressive here?

Nirmal Jain: No, the banks are not temporary, but the problem is that the competition from NBFCs is more. Wherever banks can reach out or customers can afford the process and bank turnaround time, they will go to banks. Supposing you go to any PSB, they can give you a gold loan at 6.5% to 7% but you have to go there to the branch. Sometimes some of the banks basically take your gold today and give you loan tomorrow and day after. Their approval takes time, so the way gold product is that many customers take loan for a very shorter duration and they want to have it quickly done and in flexible terms, so those are the customers that come to NBFC. Then there are areas and places where banks do not reach even if the banks have branches, they may not be doing gold loan there and the market is huge. There is a bit of significant part of markets still with money lenders and pawn brokers who charge exorbitant rate of interest so banks will be there. I do not think banks will withdraw for any. They will continue, but NBFCs they were trying lower rates that activity might slow down.

Sharadh Singh: Sir, the next question is regarding the provisioning on the NPAs so on these increased gross NPAs due to the RBI norms are we taking some excess provisions there or are we sticking to the ECL norms?

Nirmal Jain: ECL norm is broader which actually can be higher than typical India or the gap accounting which will require for RBI so we are taking higher provisioning on the overall basis. It is not that we are trying to link it to RBI circular but ECL is more prudent way of estimating losses and doing this, but we can make sure that we are conservative in our provisioning requirement so if you see the RBI requirement and if you look at my entire book then as per RBI norms with the revised guidelines and everything our provisioning requirements would have been Rs.493 Crores, which is there on slide 17, whereas actual provision that we have taken in our books is Rs.1,246.3 Crores. We are almost two and a half times what is required by RBI.

Sharadh Singh: Okay thanks so one last question. In the affordable housing finance where we are going what are our yields and LTV and who we are competing against here affectively? I mean customer profile if you could give some more light on the customer in that customer profile we are catering to?

Monu Ratra: Yes. I was just mentioning that. If you see our overall portfolio mix, about 60% to 65% of our customers are salaried people. These would be blue collar employees who are seeking home loans and we have a very vast majority of our customers who are also eligible for the CLSS subsidiary. We have given the subsidy to nearly to 50,000 customers and these will be first time home buyers as well. Their annualized income is surely below Rs.6 lakhs and they would be largely into the blue collared segment.

Nirmal Jain: Sir what will be yields on these loans which we offer?

Monu Ratra: So these yields the incremental yields which we are able to get today is about 9% to 9.5%.

Sharadh Singh: And the LTV?

Monu Ratra: LTVs would range the classical because we are in the affordable segment so these LTVs would be somewhere in the range of 75% to 78% average LTVs for a portfolio level.

Sharadh Singh: Thank you so much. That will be all.

Moderator: Thank you. The next question is from Bhuvnesh Garg from Investec Capital. Please go ahead.

Bhuvnesh Garg: Thank you for the opportunity. I have a couple of questions on the assignment assets and the income? Firstly, if I heard it correctly you did about Rs. 3,600 Crores of assignment in nine month FY2022 is that right?

Nirmal Jain: In one quarter I think we do these kinds of numbers. That will be in the last part.

Bhuvnesh Garg: What will be the number for nine months Sir?

Nirmal Jain: I will give you the numbers. Rs. 6,400 Crores actually in nine months. If you say Rs. 3,600 Crores last quarter and then about Rs. 3,000 Crores in the previous two quarters right.

Bhuvnesh Garg: Yes?

Nirmal Jain: Q1 was not much. Q1 is typically COVID affected quarter.

Bhuvnesh Garg: Fine. Sir in that case can you please provide a breakup of the assignment book like the kind of Rs. 13,000 Crores assignment assets what is the breakup of those assets' segmental breakup?

Nirmal Jain: Assignment book segment breakup you are saying product wise?

Bhuvnesh Garg: Yes.

Monu Ratra: Sir, home loan assignment is nearly about Rs. 5,500 Crores - Rs. 6,000 Crores

Nirmal Jain: Gold loan is also about Rs. 6,000 Crores, microfinance will be the remaining.

Bhuvnesh Garg: Fine and Sir if we look at your NIM on assigned asset so it is about 6.6% for nine months so if we take Rs. 6,400 Crores of assignment during nine months and 6.6% of NIM so our income should have been around Rs.315 Crores to Rs.320 Crores but we see Rs.816 Crores from assignment income for the 9MFY22?

Nirmal Jain: Rs. 6,400 is the incremental assignment book. Rs. 816 Cr is earned on the entire closing book over the period.

Bhuvnesh Garg: Sir, just one last thing so if we look at your total assignment income so if forms a significant part of your PBT? For nine months it is about like 70% of your PBT so in that case how do you view the stability of this income going forward?

Nirmal Jain: The assigned assets are like loan assets on which we continue to earn income and so I think this has to sustain and grow as we keep growing our assigned book and the co-lending books. That is the key strength of our balance sheet and the financials because there is a flow of income where we are not taking any risk or we do not have any capital block and it will be a sustainable income till the assets fully mature.

Bhuvnesh Garg: Thank you. That's it from my side. Thank you. Wish you all the best.

Moderator: Thank you. The next question is from Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Good evening. I thought I will ask about the business loan segment. Where after a long time we have seen sharp growth in disbarments? I think now it is Rs.970 Crores in the last quarter and the collection efficiency has also been the best we have seen in a long time so does that reflect the fact that you were talking about a positive macro view? Does it reflect that business loan segment is picking up pretty well and you are confident to grow the business and also I wanted to ask in the context of your loan book is about Rs. 5,800 Crores to Rs. 5,886 Crores out of which Rs.189 Crores is NPA and Rs.265 Crores of restructured loans so do you expect that the 6.6% is probably peak the NPA level and do you expect that to come down and is the restructured book performing well? Thank you.

Nirmal Jain: I very much think what you have said is bang on. The MSME segment we have seen a very strong recovery with the economy recovery and the asset quality from here should improve significantly and what you are saying is absolutely right that the traction in the last quarter has been very positive and hopefully the numbers will be reflected in the next few quarters in this particular segment of business. Also our DIY model is getting very established in terms of quality of credit, delinquency and growth. Overall, business loans should do well going forward.

Vivek Ramakrishnan: Excellent and Sir the AUM I noticed was Rs. 7,000 Crores and the loan book was about Rs.5857 Crores so the balance would be ones that have been assigned?

Nirmal Jain: That is right. Absolutely right.

Vivek Ramakrishnan: As a performance difference between the two significant, in the sense that would the numbers be even better than that going forward?

Nirmal Jain: The numbers will be better and I think we will be able to even assign more. What happens in assignment is that you have a first of all three months or six months and after that only we can assign and if there is a slight delinquency then obviously no bank will take it, so banks will take only assets, which have been performing well. The assignment basically will improve as the quality of book improves, but assigned is small part of the total book in the business loan segments, but over a period of time it can become as significant as home loan and gold loan also.

Vivek Ramakrishnan: I presume the collection efficiency is a leading indicator that things are improving?

Nirmal Jain: Absolutely.

Vivek Ramakrishnan: Congratulations and all the best to IIFL.

Moderator: Thank you. The next question is from Vikash Agarwalla from BofA. Please go ahead.

Vikash Agarwalla: Thank you Mr. Jain for giving me the opportunity and thanks for providing the update. I missed the early part of the call so maybe I am not sure if this question has been answered? Actually I have two questions? One is I wanted to understand if there any challenges you are facing given the recent Omicron wave in the current quarter? The second question is I wanted to understand a little more on the co-lending side? Obviously there is some announcement which has come in terms of partnership but what sort of disbursements are you seeing under this model? What is your target in the next year or so and how does then it impact your assignment strategy? Why would the banks choose a co-lending over assignment which you quite proactively do so if you can share some thoughts on that, that will be helpful?

Nirmal Jain: As for Omicron, in the December and beginning of January we were very worried, but thankfully it has not impacted much. I think the business momentum continues and more or less people are reconciled to the fact that this is spreading rapidly, but it is not fatal and not something very serious so Omicron is not a big threat, at least in my understanding and more or less it is behind. From here on, I think things should get better. That has not impacted much. Secondly about co-lending in assignment, that is a good question and so I will tell you the difference. In case of assignment, it is transaction by transaction, so bank will come and say okay this quarter we want to take your assets so let's say they evaluate certain amount of assets and take. The advantage is that banks will take it when they need loans but the disadvantage is that banks also do not have continuity of asset flow because they also plan their balance sheet so they should know how much retail assets they are going to get from this channel. From our point of view, the co-lending works better because one it happens in the origination. Two it is a continuous process so you do not have to really worry about the transaction continuity because this is a partnership model. You only have to keep 20% on the book, which you can easily do through your retained earnings and you do not have to worry about liquidity and you do not have to worry about risk. And obviously the challenge is that that every transaction gets appraised by both institutions, bank as well as NBFC, so the processes, your work flow everything has to be very smooth and resources are required from both side, but longer term co-lending is a good model because the risk assessment is happening at origination and both the partners know that this is how liquidity and asset flow will happen, so banks also know that okay we can expect so much assets from this co-lending partner. They also plan their liquidity and balance sheet and we also plan and as the partnership becomes deeper, it becomes easy for both parties to work, but the challenges are that you have set systems. Every transaction has to be approved. In case of assignment they will set up a team. They will go through a bundle of assets, choose what they like and take so there is a difference.

Vikash Agarwalla: okay, if you can also elaborate on what sort of target you have in this model in the coming quarter or even say the next financial FY2023? I know this may not be very hard target but any thoughts on what sort of business per month or these products you are targeting more on the co-lending model?

Nirmal Jain: So I think as you said that because you are unprecedented we probably are doing co-lending at scale for the first time. I think next year almost half of our disbursement the total overall disbursement of the company can be co-lending model so that is our target.

Vikash Agarwalla: Understood. That is very helpful Mr. Jain. Thank you.

Moderator: Thank you. The next question is from Aswin Kumar Balasubramanian from HSBC Asset Management. Please go ahead.

Aswin Kumar B: My question again was from the co-lending model? I believe you mentioned that you did about over Rs.500 odd Crores of disbursement in the home loan segment through co-lending so when you say Rs.500 Crores, out of that only 20% will be on your balance sheet right? Is that the way to understand this number?

Monu Ratra: Yes.

Aswin Kumar B: So when you are mentioning in your presentation that you have done Rs. 1,600 Crores of disbursement that also includes Rs.500 Crores?

Nirmal Jain: That includes Rs.500 Crores. Out of that Rs.500 Crores 80% go onto banks so basically only 20% in your book.

Aswin Kumar B: Right and the other thing is that so this disbursement which you have done that will show up in the assigned portion or like when you are saying on balance sheet of balance sheet mix which you have given in the presentation the remaining?

Nirmal Jain: It will be part of assigned asset. It will be part of loan AUM, but it will not be in our books. 80% will be part of assigned assets.

Aswin Kumar B: One more general question on the co-lending model so will the customer segment here be sort of similar to the customer segment which you otherwise lend to or considering that these are co-lending?

Nirmal Jain: The way it works is that when we negotiate with the banks we say that these are the customers segment that we target, so broadly they have to be in agreement then only the whole thing will take off but having said that when we show the loans we have an option. Supposing we like the credit but we say that it is not fitting into the co-lending criteria given by the banks, we can keep it in our books so not 100% of loans that we show are to be co-lend. We have certain policies and the banks have certain policies so whatever fits into their policies we give it to them and if we are comfortable with credit then we keep the remaining in our books.

Aswin Kumar B: Just one additional question here so the loans which are lend through this model would they have sort of a higher like say turnaround time as compared to the loans that we not co-lend?

Nirmal Jain: No, because the way practically it is happening is that and RBI has also allowed that, that we disbursed and then the bank is doing the co-lending. We work like we are the agent and we get money reimbursed by the bank and then the loan asset. The customer signs the triparty agreement where the option is with us to allow 80% of loans to go to the bank and then with banks it may take a day or two or a few days or whatever and if they approve it then they take it from the beginning and, but otherwise as far as customer is concerned there is no delay.

Aswin Kumar B: But the customer will have a different interest rate right like if it is co-lend it might be little lower?

Nirmal Jain: No, the interest remains the same. Supposing the customers interest rate is 10% and co-lending arrangement with the bank is 8% the reason is that we collect interest at 10% we give back 8% share on the 80% because we are the bank agent. The remaining interest is with us.

Aswin Kumar B: Even on that 80%?

Nirmal Jain: Yes, on 80% I will continue to earn spread and on the remaining 20% entire earnings is mine

Aswin Kumar B: Sir, it is very similar to assignment traction in the way it works expect that you do not need to hold it on your books for the seasoning period and all that?

Nirmal Jain: That is correct. It is very similar to assignment traction, but every loan gets and in assignment it is a bundle and in assignment what happens the bundle is rated by rating agencies loan by loan.

Aswin Kumar B: Thanks a lot for that.

Moderator: Thank you. The next question is from Ray Pohanda from BCP Securities. Please go ahead.

Ray Pohanda: I have two of house keeping questions. One is that actually just because we are starting to cover IIFL can I just have quick one as to who the IR is, his or her name?

Nirmal Jain: Anup Varghese is our IR and mail ID is ir@iifl.com.

Ray Pohanda: Thank you. My second question is on whether this meeting will be recorded for later on if I would like to replay?

Nirmal Jain: Yes, transcript will there on the website. It will be put up on the website in a couple of days.

Ray Pohanda: Good thank you so much. That is all I have.

Nirmal Jain: You can send the Q&A on the website and we will send you a link also.

Ray Pohanda: Awesome. Thank you so much.

Moderator: Thank you very much. Since we do not have any further questions, I would now like to hand the call back to Mr. Nirmal Jain for some closing remarks.

Nirmal Jain: Thank you everybody for being on the call. If you have any more queries or clarifications or questions, please get in touch with our investor relations. Thank you so much.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. Thank you for joining us and you may now disconnect your lines.