

November 17, 2023

BSE Limited

Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street
Mumbai-400 001

Scrip Code: 538446

Dear Sir/ Madam,

Sub: Transcript of Schedule of Analyst / Investor Call held on November 10, 2023.**Ref: Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations)**

Further to our intimation of conference call with Investors/ Analyst, we enclose the transcript of the conference call held on November 10, 2023.

Pursuant to Regulation 46, the aforesaid intimation and Transcript of the Investor Call is also available in the Company's website i.e., www.moneyboxxfinance.com

You are requested to kindly take the same on record and acknowledge the receipt.

Thanking You,
Yours faithfully,

For **MONEYBOXX FINANCE LIMITED**

(Semant Juneja)
Company Secretary and Compliance Officer



Moneyboxx Finance Ltd

Q2 and H1 FY24 Earnings Conference Call

Event Date / Time : 10/11/2023, 16:00 Hrs.

Event Duration : 70 mins 38 secs

CORPORATE PARTICIPANTS:

Mr. Deepak Aggarwal

Co-Founder, Co-CEO and CFO

Mr. Mayur Modi

Co-Founder, Co-CEO and COO

Mr. Tushar Pendharkar

Ventura Securities

Q&A PARTICIPANTS:

1. **Sahil Sharma** : Individual Investor
2. **Bama Dutta** : Individual Investor
3. **Dipanshu Suman** : Vriddhi Capital
4. **Nisarg Vora** : Individual Investor
5. **Rajeshkumar M S** : Individual Investor
6. **Manhar Rao** : Individual Investor

Moderator

Ladies and gentlemen, good day and welcome to the Moneyboxx Finance Limited Q2 and H1 FY24 Earnings Conference Call hosted by Ventura Securities. As a reminder, all participants 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 * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Tushar from Ventura Securities. Thank you. And over to you, Tushar.

Tushar Pendharkar

Thank you. Good day ladies and gentlemen. On behalf of Ventura Securities Limited, I welcome you all to Moneyboxx Finance Limited Q2 and H1 FY24 earnings conference call. Few of the statements in this call may look forward-looking in nature, which are subject to several risks and uncertainties, and actual results could differ from such forward-looking statements. The company is represented by Mr. Deepak Aggarwal, Co-Founder, Co-CEO and CFO, along with Mr. Mayur Modi, Co-Founder, Co-CEO and COO of the company. I would now like to hand over the call to Mr. Deepak Aggarwal for opening remarks. Thank you and over to you sir.

Deepak Aggarwal

Thank you, Tushar. Hi, everyone. This is Deepak Aggarwal, Executive Director of the company. And just for the interest of everyone, I believe, I will give 10 minutes of background about the company, and post that we can have a Q&A session. So basically, to give you first the industry overview. See, basically, there are about 250 corporates or NBFC, which are MFI. So wherein you have loan ticket size up to INR 50,000 largely, and the loans are given in group of like 8 to 10 women groups.

So typically, that is a INR 3 lakh crore industry and running for the last two decades. Now, where we are is we start our loan ticket size from INR 50,000 and go up to INR 10 lakh. So, what has been happening, historically, say, last two decades, although MFI is gaining the presence, but there has always been a paucity of getting a loan which is of higher amount and for the individual level customers, say any amount which ranges from INR 75,000 to INR 3 lakhs in unsecured category or say INR 2 lakhs to INR 10 lakhs in secured category.

The problem which is faced by a customer of this segment is, especially the area where we serve, which is like Tier 3 and below. Rural, semi-rural, semi-urban kind of area. You have lack of GST data and they don't have ITR. The banking history is not adequate to sanction the loan. So, what happens for these kinds of customers, neither banks are able to serve nor though typical fintech, because fintech also goes on these three things. So over the past **[Inaudible 00:03:30]** Hello?

Moderator

Sorry, sir. Please go ahead.

Deepak Aggarwal

Yes. So, what has been happening in the last 7 to 8 years and which I think most of the investors realized is that there is a significant supply gap, in this particular loan segment, which is INR 50,000 to INR 10 lakhs. So this is wherein Moneyboxx comes in, you have larger players like Five Star Finance, Veritas, Vistaar in the south, in this space. You have a smaller player like Sarvagram in Gujarat and Maharashtra, and Finova and Aye in the north. So, this is a typical peer set in the space where we operate in.

And so, in terms of product, what we do is, we do INR 70,000 to INR 3 lakh kind of unsecured ticket size, and INR 2 lakh to INR 10 lakh of secured ticket size. And tenure varies from two-three years in case of unsecured and 4-7 years in case of secured. Typically, the key area where we cater to is dairy. So, unlike many players who have like cluster-based approach, in Moneyboxx we follow essential-based approach. So, wherever we are lending, we see that these are the essential segments which protect us from credit cycles. So, we have dairy, which is over 60% of our portfolio.

When we say dairy, it's a livestock customer, any customer who is having 5-plus cattle plus an agri farm and plus some other income. So, minimum two income are required. So, how we define it as, so dairy is a food items, so it's essential. Then, next is a Kirana segment which is about 10% of our portfolio. So, normal mom and pop shop in the rural and semi urban areas and semi-rural areas. And then we have other retailers like chemist, readymade garments, cloth, electrical hardware. So, all routine items followed by some retailers like which we classify as manufacturers, sheet metal fabrication, furniture, and a very small portfolio of about 2%-3% in services, like eateries etc.

So typically, what we are saying is that we have two products, secure and unsecured, in these 4-5 segments, which are essential in nature. So, we'll not do funding to lot of locks manufacturer in Aligarh or a shoe manufacturer in Agra, i.e. we don't have a cluster-based approach. The other part is, as I said, that it's a largely a rural and semi-rural, semi-urban kind of portfolio. We have a branch led model, although it's a 100% digital processor. So, not even any single paper document is taken from the borrower. 100% of the assessment is done on the B2B app. So, that is the one thing. In terms of how we differentiate from peers significantly is that our asset quality is among the best in the industry.

So, just to give you a couple of examples, during the COVID 1, wherein there was a moratorium. We still had 96% overall collections. The same thing happened with COVID 2, when there was no moratorium. And since inception, our collection has never been below 98% except for one or two months in COVID. So, what we believe is that, asset quality in the lending business is very, very important. And this continuous control in asset quality has led to where we are i.e. we're having funding from almost 33 marque lenders,

which today include 8 banks and some of the most conservative banks such as State Bank of India, HDFC, Federal, IDFC. We have AU Small Finance Bank and very recently got sanction from Kotak Bank as well.

So, there is a direct proof of this asset quality and our processes which ensured at a very early stage, we got supported by the most conservative lenders. Even in NBFC space, we have Tata Capital etc. Also, the yield in the business is quite good. So, we would see in the presentation that we are operating at a 30% yield, individually at 32% in unsecured and around, 24%, 25% in secured business. The spreads are high at around 15% to 16% and NIMs are high at 17% to 18%. The liquidity is strong in terms of, one, obviously the funding in the form of debt, term loans from bank. And in addition to that, we have INR 45 crore per month of co-lending and business correspondence line, which ensures that we are not short of liquidity.

So, these co-lending and BC lines are from Vivriti Capital, MAS and Utkarsh SFB. And this is again a result of very strong process-oriented culture which we have. Beyond that, as I said that, on tech, we are very focused. So, there is a B2B app, which is there for credit assessment, and then there is a customer facing app. Wherein he can see his statements, he can make some savings through individual goals, he can do insurance, he can actually get reward points for referring friends, he can apply for top up loans. So, there are a lot of things which one can do on the customer facing app, which is available online on the app store.

The other thing in terms of strategy, which is working is that, earlier we were only into unsecured loans, but from last one year as our cost of borrowing has started declining and we are getting larger tenors as well, we started the secured lending as well. And this is gaining a lot of traction, where in Q4FY23, we disbursed only 6% of the incremental disbursement as secured, the last quarter saw about 22% of the portfolio, which was secured in terms of disbursement.

Although the outstanding portfolio is 13% secured. So, this secured portfolio will ensure that these loans stay longer in the books, because they are for larger tenure. In terms of geography, we are in seven states. This is for a company which is kind of 4.5-year-old. It's a very strong geographic diversification with no state having over 26% of the AUM. So, we have presence in Rajasthan, Haryana, Panjab, UP, MP, Chhattisgarh, Bihar and very soon starting with Gujarat. So generally, you will see that our even our larger players, like Five Star, Veritas, have 85% of portfolio in three states similar for Finova or Sarvagram.

So, everyone has the same story, other than Aye. The result is that, okay, we have relatively higher OpEx in the beginning. But it starts declining over a period. And expansion becomes faster as you grow. Now, we have a target of about INR 800 crores AUM for March, this financial year, and double it to INR 1,600 crore by next year. So, although we are conservative, I think the growth is achievable. ROE will be in double-digit very soon despite having played on very low on equity since inception.

The key update which I would like to share is that we have got a confirmed commitment of over INR 75 crores in this private placement round, which we are doing. The money will be in by say, 15th of December. And as you see the Q2 numbers where we have a net worth INR 85 crores, with INR 75 crores

fund fusion and say a ballpark of INR 10 crore additional profit, which will come additionally in this year. We are doubling our net worth by March. Actually, more than doubling, because there is another INR 5 crore which needs to come from promoters as well, as warrants are already issued.

So, in the last 4.5 years, this is the largest expansion of net worth, I would say, which is like a 100% growth in the net worth in the next 4-to-5-month period, but largely by December due to private placement. I think, this broadly covers the key points. The only other thing which is kind of very differentiated with our model is that, how we are trying to build is that other than the normal business, we were trying to give something extra to our borrowers. Say, for example, when we say we have a 65% portfolio in Cattle loans, we are the only NBFC in India, which hires Vet, I mean, with Vet doctors on our payrolls.

And services like treatments, vaccination, artificial insemination, guidance on nutrition, guidance on insurance, all these comes free of cost to the borrower. So, for us, the cost may not be very high but in terms of savings for borrowers, it's very high. So that's one thing which we do, which is very differentiated and really appreciated by the customers. The other thing is, as I said, that for all the livestock borrower, they need to have a farm income as well. Because that's how we calculate the unit economics and the business economics for this guy. We also through CSR partnerships distribute about 50 fruit-bearing trees per acre to the farmer.

So, these are supported by CSR initiatives, like where recently Dell funded the trees, before that Parle Agro did it. And we are coming up with more such initiatives very soon. So that's one way to give a customer something extra, wherein he starts thinking that, if there are two lenders at the same pricing, he will rather go with us, because these are the additional benefits which he gets. So, these are a brief guideline where we are. I'm happy to take it forward from now. Tushar?

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. First question comes from Sahil Sharma, an Individual Investor. Please go ahead.

Sahil Sharma

Congratulations for good numbers, sir.

Deepak Aggarwal

Thank you, Sahil.

Sahil Sharma

I wanted to understand that for increasing our AUM from the current size to, you said INR 800 crore by March 2024 and then INR 1,600 crore by March 2025. What kind of strategy would we follow in terms of the geographical expansion?

Deepak Aggarwal

Thank you, Sahil. So, Sahil, as we notice that, since inception, we have been continuously increasing our presence in states as well as the branches. So, that has been the strategy. So now, today we are-- just one second, Sahil. Hello?

Sahil Sharma

Yes.

Deepak Aggarwal

Yes. So, we are in seven states as of now and starting Gujarat. So, Bihar we very recently added and Gujarat we are starting from December. So, we will have presence in eight states and about 100 branches by March, and next year we will enter three states of South, which is Karnataka, Telangana, and Tamil Nadu. So that is on card. And in the meanwhile, we'll enter other states as well, starting with the borders. So that strategy is growing expansion in states, the other is on expansion in branches. So, at least we have one proven model in terms of the existing business, where we know this much we can grow.

And that is the only thing which we have accounted for in the current business plan. So, other than that, so one is this expansion, which is geographical expansion and the branch expansion. Then the third thing will come is that, and then you take other approaches to grow AUM, which is for this year, as we said that last year we were more focused on unsecured lending and getting the co-lending partnerships in play. So, this year, the biggest agenda is to increase our focus on the secured loan. So, it comes with a larger ticket size and larger tenure to increase the AUM. So next year, while these initiatives will continue, we will also explore some other areas that today we only do business loans.

So, if we can do similar loans to start with government employees in the same sector, in the same areas or we can enter new products, which could be like a cross-sell opportunity. Say, for example, all our customers have bikes, so is there some scope there to do that business or if there is some scope to do

commercial EV, like some specialized stuff which we can do. So, we keep on exploring all that stuff to grow the year. But yes, having said that, there is a product which is already developed, which has shown a good execution over 80 branches now. This will continue to grow.

Sahil Sharma

Thank you, sir. My next question is that given the pace of growth, it is good that we are already profitable, but do you have some rough estimate for by when we can achieve 15% ROE?

Deepak Aggarwal

Okay. So that is not far, but what we are 100% sure is that even in the current year, we will have a double-digit ROE. I will not be surprised if, by March, as in on the annualized number, because what we see is that, we have now got a reasonable commitment in terms of equity. There'll be no surprise if we are able to achieve that number somewhere by March itself. Maybe 100, 200 basis points here and there. But, for sure, by next financial year we should have more than 15% ROE. Maybe more like late teens to 20%.

Sahil Sharma

Thank you, sir. I'll come back in the queue.

Deepak Aggarwal

Okay.

Moderator

Thank you. Next question comes from Bama Dutta, an Individual Investor. Please go ahead.

Bama Dutta

Thank you, sir, for giving me the opportunity to actually ask you. And my question is, like, what is the average breakeven period for the new branch that is being set up? To becoming profitable?

Deepak Aggarwal

In terms of months, it would be around six months. Yes, in terms of months, it takes about six months, Bama. And in terms of AUM, it is anywhere close to INR 2 crores to INR 2.5 crores of AUM. So more likely, I would say take INR 2.5 crores of AUM for branch to become to breakeven.

Bama Dutta

Okay. And historically, how this data being improved? I mean, are you seeing any improvement on this breakeven period I mean, when you started or maybe in the mid, I mean, maybe 2, 3 years back and now that improvement, are you seeing that, or is it, like, average, it is similar?

Deepak Aggarwal

This average is similar, because some branches where you have a very good branch head, you may have breakeven in 4 months. But then there will be some branches which we will go to 6 months. So, on an average does not make much difference, yes. And also, because at least for the time being all the branches, the main branches after 64 branches which we have opened, they're only doing secured business. But, yes, as I said that 40 out of 80 branches we have now, 40 are less than one year old.

So, they are still not profitable, but just with 40 profitable branches and with the low equity base, we are still making about 8-odd-percent ROE, which is despite the bonus given in this quarter. So next quarter, it will even improve. So, we are seeing the improvements there. But I think these are initial phase when you grow a branch base at a much higher number. But over a period of time, so, like, when we have, say 300 branches, it is not possible to open 200 branches next year. So, that percentage of new branches over existing branches will reduce over a period of time.

Bama Dutta

Okay. Thank you. My next question is, compared to the last quarter, I mean, if we see, interest income has been increased roughly about 20%. But employee attribution cost and finance cost has been increased, like about 45% to 50%. So, what actually attributed?

Deepak Aggarwal

So, in terms of employee base, as I said, the larger part is because of the bonus. So, this quarter has some bonus hit. So, we are dividing our bonus into Q2 and Q3. So, this quarter, so if you compare with the Q1, the employee expense look higher, but it is because of the bonus part. Otherwise, it would not have. But also, at the same time, there's a lot of expansion which has happened.

So, there is increase in branches by 20. So, we were like 61 branches in March and in September, we had 79 branches. So, expense has also increased. But had there been no bonus impact, the impact would not

be that higher. I think finance cost is fine. That is the same 19% increase, because there is no equity raise per se in that quarter. So, increase in finance cost is just normal in line with the overall income growth. So, you will see that income from operation has grew by 21% and finance costs grew by 19%. So, it's broadly there.

Bama Dutta

Thank you. Thank you so much.

Moderator

Thank you. Next question comes from Deepanshu Suman from Vriddhi Capital. Please go ahead.

Deepanshu Suman

Hi, sir. Good evening. Congratulations on the good results.

Deepak Aggarwal

Thank you.

Deepanshu Suman

I wanted to understand, and have few data points. What would be the total customer count as of now on books?

Deepak Aggarwal

So, in terms of unique accounts, it's 37,000.

Mayur Modi

It's a 37,452 to be precise. Yes.

Deepanshu Suman

Okay. And what is the kind of the repeat customer what we are having? So, how many customers as of now would have taken, say, a double or a third time loan from you?

Mayur Modi

I can that the Deepak if you want.

Deepak Aggarwal

Yes, please. Sure.

Mayur Modi

So, as a percentage of AUM, that number is today 27.1%. Which are repeat customers.

Deepanshu Suman

Okay. Got it, sir. What is this fee income, sir? Like, you have recorded about INR 2.4 crores of fee income. So, what are the components of the fee income?

Deepak Aggarwal

So, it largely comes from, so we do BC, it's a business correspondent. So, here what we do, we build a book for a third party, like say Utkarsh SFB. So, although all the underwriting methods we apply in line with Utkarsh policy, but the funding is done by Utkarsh. So, say, for example, if we have a yield of 30% on a loan and Utkarsh charges 13%. So, the balance 17% which is the monthly differential interest rate which we get, is the major part of that fee income in this income, which I said the BC business, which we do. The second part is obviously that whenever we do a loan, the loan is priced at 30% which means that 28% is a rate of interest, and say 2%, 2.5% is a processing fee. So, there is that component of processing fees, which is included in the fee income.

Deepanshu Suman

Okay. So, do you guys also charge on the Vet visit, etc? So, those components also go or?

Deepak Aggarwal

No. Those services are complimentary.

Mayur Modi

So, just to kind of clarify, out of the INR 2.44 crore fee income, that we have booked. Almost INR 1.69 crore is from the BC fee that we received from the BC partner.

Deepanshu Suman

Okay. Got it.

Mayur Modi

And then they are like some prepayment charges, some bouncing charges, that we receive. So, that constitute a very small portion, and then there is a login fee for secured cases. So, that together, typically INR 2.44 crores, but a very last portion of that is the BC fee we received from the BC partner.

Deepanshu Suman

Okay. So, sir, what is the cost of sales and the money what you were borrowing from banks, at what period are you getting on this money, and how has been the trend over the last say 2, 3 quarters?

Deepak Aggarwal

So, see, what happens is that with banks, so for example, we got full IRR of 11.5% from SBI. So, which includes PF. HDFC gave at the same 11.5% including PF. Kotak is around 12%. Just to give example, DCB is 12.65%. So, what is happening now all the loans which are coming from bank and more and more we are taking from bank are coming at average rate of 12%. And from NBFCs, we receive at around 13%, 13.25%. And this has declined over a period of time. In Q1, nothing was coming less than 14%. But in Q2, everything is coming less than 14%. And the higher range we actually paid in Q2, we also paid 14%, but otherwise it's like 13.25%, 12.65%.

And now our benchmark is that we will not take anything, which is more than 13%. So maybe 13%, and see the private placement or public issue of NCD could be a little different thing wherein we can go to 13.5% as well, because there's a marketing cost there. But as a policy, we have decided that we will not take anything which is more than 13% from NBFC, and maybe 12.5% from bank. So that's the kind of broad trend which we are seeing. And so continuously as rating improves, the cost will come down over a period of time.

Deepanshu Suman

Got it, sir. So, this improvement in the borrowing cost. So, is it translating on to your NIM, or you're also thinking to save, give some interest reduction to your borrowers? How are you thinking about this thing or what say next 3, 4 quarters?

Deepak Aggarwal

We are not thinking of any reduction per se. So, in fact, we have, in terms of unsecured loan, we have only increased the rate. But, yes, what we have done is that we have secured loan, which is priced significantly lower than the unsecured loan. So, month-on-month as the AUM of the secured loan increases, there would be slight dip on the yield side. But similarly, there will be reduction on the borrowing side.

Deepanshu Suman

Got it, sir. So, the last question, what I had on the asset quality. So, if we see over, say, last half year, this March to September, there has been a slight increase in both your gross NPA and net NPA as well as the PAR has also went up. So, what is contributing on to this, and how should we see this over say by the end of March?

Deepak Aggarwal

So, if you see, overall credit cost has not gone up significantly as you said. It's in the ballpark range of 1.5%. Sometimes GNPA will look little higher, sometimes it'll be lower. But then overall in terms of write off and ECL, it's about 1.5% per year. What we have done is on a going concern basis for future, what we have assumed in the business plan that we will have a total 2% kind of credit cost, which can be there. And we believe this will be maintained, especially in the rising scenario where secured loans are increasing. So, ideally it could be like a 1.5% to 2% credit cost is unsecured and maybe 1% odd in secured. So broadly, we should be there, 1.5%, 2% range.

Deepanshu Suman

Okay. So, in the model, we are building up about 1.5% to 2% kind of say credit.

Deepak Aggarwal

In the model, yes. In the model, we have been 2%. I mean, going forward from next year onwards. Just because the scale is improving. So, we have built up about 2% odd credit cost overall.

Deepanshu Suman

Okay. Thank you, sir. I'll come back in the queue.

Deepak Aggarwal

Sure.

Moderator

Thank you. Next question comes from Nisarg Vora, an Individual Investor. Please go ahead.

Nisarg Vora

Hello, sir. Congratulations on a good set of numbers and the fund raise. As we continue to quickly grow and ramp up our AUM, what are the strategies that we have in place to ensure that the collection efficiency continues to be as good as it is right now?

Deepak Aggarwal

Okay. So basically, strategy, there is no such significant change. I think the way we are working in terms of that the guy who disburses the loan is responsible for the collection as well. So, all incentives for the loan relationship manager, for LRM, for the branches or for the credit, maybe the BC, the branch rate officer and the central credit officer. Everyone gets his incentive wherever applicable or the appraisal wherever applicable. Especially based on the collection or the delinquency. So, I think overall the interests are aligned that, the people will get benefit if there is a low delinquency.

So obviously, there are various metrics in terms of credit policy, which we need to ensure that delinquency is minimal. We relatively have a sector norm, but as a matter of policy, we have ensured that quality remains good. But at the end, as I said that as the AUM increases significantly, you can't be just doing unsecured loan. And when you do secured automatically delinquency becomes less. Maybe if it is 2% to 3%, even on the industry side, if it is 3% on unsecured, it will be like 1% in secured. So, automatically get that controlled.

Nisarg Vora

Right. Thank you for that. And I wanted to understand that what has been the impact so far on our business of the rising interest rates and tighter liquidity, like all over the world. Does that affect our growth and everything?

Deepak Aggarwal

Mayur, do you want to take this up?

Mayur Modi

Sorry, it's a question about the impact of rising interest rates and low liquidity?

Nisarg Vora

Yes.

Deepak Aggarwal

Right.

Mayur Modi

See, rising interest rates whilst other people have been impacted, but unfortunately, because of the fact that we were a relatively smaller unit, we have borrowing any which way at are relatively higher cost. In fact, if you look at our borrowing cost, it has actually starting to come down with the scale and with the proven business model and people getting more confidence in the business model and lenders are continuing to kind of bring their rates down. We have been aggressively negotiating to bring the borrowing rates down, which we've been able to do in spite of the fact that, the interest rates as a cycle has gone up.

Liquidity, as Deepak had mentioned earlier, that, one is balance sheet liquidity, which we mentioned that there is a very high confidence of the lenders in kind of, in associating with us, there are already 30 lenders who provide us liquidity from time to time on the balance sheet size. There are people who have come in with 2 cycles, 3 cycles, and even 4 cycles, 4th round of liquidity since they started. Plus, additionally, what we have done is, we have, broke a very good co-lending partnerships where we have on tap liquidity of INR 50 crores.

So just to give you a perspective, we are kind of disbursing roughly in the range of INR 50 crores to INR 60 crores month-on-month. So, even if there was not balance sheet liquidity available, we could do that with the on-tap liquidity with the co-lending partners and the BC partnerships. So, I don't think the liquidity is really a concern, at least, the way we're growing and the way the liquidity is building up in the system for us.

Nisarg Vora

Right, right. And sir my last question is that we have been openly talking about our model and strategy, like our non-cluster based approach and everything. So, first thing is, how difficult it is for others to simply replicate this, if this is so successful? And the second thing is like, are there any thing, like, is there

something in place in our underwriting process like some data thing or something that gives us, eventually keeps on building our competitive advantage and keeps the customer with us?

Deepak Aggarwal

Yes, I think, yes, we have been open about it because of the fact that we believe that, no matter what model you adopt, I think the execution is the key. And I think we have a very fantastic team both on the ground and in the management, on the middle management side, with great experience in terms of handling this kind of a business. So, I think the execution has been top notch where there are certain principles that we've deviated, whether it is in terms of underwriting, whether in terms of sourcing. So, let's see. So, if I tell you today that in our funnel, in terms of lead generation to actual disbursement is only 13% to 14%, which is the lowest in the industry. So, if there are 100 leads generated, the ultimate funding is only happening to 13% to 15% of that 100 leads, which one shows that we have been very, very selective with the we underwrite to there is enough demand to do that.

Even in spite of rejecting 85% of the leads, we are still able to grow at a very healthy rate. Yes, we have been using proprietary underwriting models, because of the fact that we have now an experience of 4 to 5 years plus 2 years of COVID has really kind of, I know, tested our model and we have kind of tweaked that. So, there is a lot of proprietary information in terms of geographical and geography, the segmentation, the behavior, customer behavior through different credit life cycles that has all got built in into the model and it is getting refiner by the day. So, as we move forward, I think we do have a competitive advantage in terms of understanding the segment better and execution is top notch.

Nisarg Vora

Got it, sir. Thank you. I'll get back in the queue.

Moderator

Thank you. I request the participants to restrict with two questions in the initial round, and join back the queue for more questions. Next question comes from Rajesh Kumar, an Individual Investor. Please go ahead.

Rajesh Kumar

Hello, sir. Congratulations for the progress that the company is making. I have two questions. First is that, we have a firm capital raising commitment of INR 75 crores for Q3. And we have a target of INR 6,485-

plus-crores AUM for the financial year 2028. So, my question is how much more share equity capital is required to reach this AUM?

Deepak Aggarwal

Okay. So, this is basically two answers question. There are two things. One is that covenants allow us for to do-- on every INR 100 crores. I will answer this in multiple steps. So, as for the covenants from the lenders, for every INR 100 crore of equity, we can do about INR 750 crore in AUM. So, that's one math. The second thing is, ideally, we would like to have, like, for every INR 100 crore of equity, we would like to have about INR 500 crore of AUM. So, it's like 1:4. So that decent ROA and decent ROE can be maintained.

The third thing is, as we said, that for INR 685 crore, generally the expectation would be that we would need about INR 1500 crores of equity. That's definitely a choice how much you want to raise. But there is a profitability which is there. I would say from hereon after the INR 75 crore raise, we will be sitting on a INR 175 crore net worth. So maybe we could raise another INR 700 crore, INR 800 crore more, to reach that kind of AUM. I would assume that we would raise another INR 800 crore in the next 4.5 years.

Rajesh Kumar

Okay, sir. Thanks for the clarification. And second question is regarding the opportunity side in the segment that we are addressing. Per year, how much is the opportunity size in the country in the unsecured segment and the secured segment preview that we are addressing can view that. That is the second. Thanks.

Deepak Aggarwal

Generally, if you see, there are various reports. The latest being the consol report, which analyze that, this INR 1-10 lakhs segment is INR 22 lakh crore. Wherein the size currently in organized sector is only INR 2 lakh crore. So based on that, if you see the opportunities as large as INR 20 lakh crores, which is like INR 20 trillion, so that's larger opportunity. Having said that, what we believe is that even when you see the current size, just the livestock is about 7% of GDP, which is INR 15 lakh crore. So, I mean, whatever business we want to do, there the opportunity is very, very large.

Even if you take the existing space which is available. But this is very, very large. I'm saying, all the segment which where we are in. Like, just livestock is INR 15 lakh crore. Kirana is close to double of that. Otherwise retail is very, very large. So, market size is very, very large. It depends on that, you have a right product, and maybe a little differentiated product. I'm not saying that something which is very, very different or revolutionary. But the way lending landscape is, even if you can differentiate a little bit versus your other options which we have. So, you can even have a good growth.

Rajesh Kumar

Great. So, just to add to this. So, this is a maximum 10 player market, as far as you have said. So, can we aim to reach up to 5% of the market share before reaching saturation?

Deepak Aggarwal

You really don't go that way, because that's kind of a-- there's a reasonable number, but it takes time. I would say, depends on the horizon you have. So, I mean, you have seen only--

Rajesh Kumar

Two decades itself I am considering. That's what I'm asking. Not immediately.

Deepak Aggarwal

Yes. So, I mean, everyone for us, we definitely like to be INR 1 lakh crore in two decades. When players are going like AU, they have done, like in 10 years from INR 350 crore to INR 35,000 crore, and then INR 55,000 crore in next two years. So, I mean, people have grown that way. It just that, you have to continuously expand on the segments where you cater to, your geographical presentation, and maybe at some point in time even open for inorganic growth.

Rajesh Kumar

Okay. Great. Great, sir. So, are you confident that even the COVID, going the scenario, everything again, are you able to ensure that you'll be able to collect 96% again with this business model? Are you confident?

Deepak Aggarwal

It should be. How do I say that? I mean, that is what we have shown that the track record has been better than the industry and very solid.

Rajesh Kumar

Yes. Sir, I have a long-time investment in this company for the next decade. Thanks sir. All the best for the future.

Deepak Aggarwal

Thank you. Thank you so much.

Moderator

Thank you. Ladies and gentlemen, if you have any question please press * and 1 on your telephone keypad. Next question comes from Manhar Rao, an Individual Investor. Please go ahead.

Manhar Rao

Hello.

Deepak Aggarwal

Yes.

Manhar Rao

Hello. Good evening.

Deepak Aggarwal

Good evening.

Manhar Rao

So, my question was, our net NPA as a percentage of AUM is almost doubled, whereas our provision cost is just the same or decrease on a QoQ basis. So, can we just have your thoughts on this? And on a long-term basis, what kind of GNPA and net NPA numbers are we comfortable with? 2% credit cost is what you said, but on these numbers, if you can also clarify?

Deepak Aggarwal

Yes. So, I believe you will see the numbers to be like, GNPA less than 1% around. If you see the write offs in Q2 of last years, it was 1.38% to 1.73%. This is just 0.88% this time. So, I am saying that maybe write off in this quarter has been relatively lower than the historical number. But overall, if the write off are at the same level, you would have GNPA at a lesser rate.

And NNPA is also getting impacted by, because there's a co-lending business, which is involved now. And there are little different accounting norms which are followed there. So, it's more regular way of money which is going to the business partner. So, there is some sort of impact. But really, if you ask me, it's not the case that credit cost has increased over a period of time.

Manhar Rao

Yes. So, I think, yes, I can understand.

Deepak Aggarwal

So, you can assume that. So, Manhar, it will be like safe to assume that we will remain in that 1.5% to 2% range. As I said that, there is even secured business, which is increasing. But at the same time, I feel that if it's when you're again working on a 30% yield portfolio, 2% is just reasonable number to have that kind of credit cost.

Manhar Rao

Okay. My second and last question was, what is going to be our growth lever on the existing matured branch, the ones which have INR 10 crore to INR 12 crore of AUM? I mean, is the growth lever in them going to be, because of we increasing the size of the branch or we moving from unsecured to secured? Because on a long-term basis, on an INR 8000 core AUM, we are taking an average of INR 16 crore AUM per branch. So, are we going to grow the mature branch by what is going to be the lever? Yes, that's the question.

Deepak Aggarwal

Yes. So, one is secure loans definitely improve the longevity of customers. So, the same customer when it is secured, it stays with you for 5 years, versus let's say 2 years in unsecured loan. So, that helps. Repeat customer helps. We have a very high percentage in repeat as well. So, that also helps. And then when the customer grows, your ticket size grows, every next time you give them a higher loan, that helps. And then you can see the other needs he has.

So, for example, can we also give him a bike loan in future? Can we also cater to some of the other needs of the customer? Say, in terms of, today, we don't give home renovation. Can we also enter into home renovation? So, there could be different threads even with the existing customer base, where you can go. At the same time, we don't feel that it could be a INR 50 crore branch in our business. So, there are branches which are now reaching INR 17 crores, INR 18 crores, even INR 20 crores this year.

So, even if the branch stays at INR 20 crores AUM, it's a good number to have. So, we have seen branches at INR 11 crores, INR 12 crores making 10% PBT margin, which is a great number. So, we would not be unhappy with the INR 20 crore AUM kind of branch.

Manhar Rao

Yes. One last accounting question. I mean, in the Investor Presentation, Page number 8. We have mentioned INR 99 crores of equity. Right? But in the BSE filing, it's totaling up to INR 85 crore. So, what is this difference of INR 15 crore is coming?

Deepak Aggarwal

The difference is the loss which we have done. The loss, which has happened in the initial years. So, the INR 99 crores shows the total amount of equity which we have raised. But the INR 85 crores is a net worth, because there has been a loss also. So, before we got profitable in the last quarter of last year, we incurred INR 16.6 crore of loss. So that's what explains the difference.

Manhar Rao

Okay. Thank you.

Moderator

Thank you. We have a follow-up question from Sahil Sharma, an Individual Investor. Please go ahead.

Sahil Sharma

Sir, I was just wondering in terms of the borrowers which we have. Like, basically, can you maybe help us understand in terms of their ability to pay back. Like, typically, what might be their annual incomes or that? Basically, trying to understand the financial strength of the borrowers, in terms of the way we model them.

Deepak Aggarwal

So, Sahil, conceptually, how we start is that a customer when we are giving any loans should have a minimum income of INR 25,000 per month. So, I'll give you an example, when we do Cattle loans, we say that minimum number of Cattle you should have is 5, and say INR 5000 is the income which we assume for a month per customer. So that is INR 25,000 per month, plus he needs to have an agri-farm, which will

give him some income will be INR 50,000 or INR 1 lakh per annum, but it will be irregular income. Not like a monthly income. So that's the starting point we have. Whether we do Kirana, whether we do any other thing, that he should have a income of INR 25,000 per month.

Mayur Modi

It's disposable income. Yes.

Deepak Aggarwal

Yes. To some extent, it's, yes, disposable income, because as I said that 5 cattle plus the farm. So, another INR 1 lakh he will make there, which will over a year, INR 25,000 becomes disposable. But then, yes, even to give a just to take if I want to give him INR 1 lakh, wherein the EMI will be about INR 5,300. So, maybe INR 11,000 is what he should have a net balance. So that's why I'm saying that it's above MFI. Wherein we are saying that, annual income of INR 3 lakhs plus.

And then it depends, I have customer who are making even INR 1 lakh per month, INR 50,000 per month, INR 70,000, INR 80,000 per month. I have a customer in secured segment, having 70 Cattle. So, it's like earning INR 1.5 lakh per month. Since these are the kind of profiles which we have. So, anywhere between INR 25,000 to INR 30,000 monthly income to INR 1.5 lakh, INR 2 lakh kind of monthly income.

Sahil Sharma

Thank you so much, sir. That's all from my side.

Moderator

Thank you. We have a follow-up question from Nisarg Vora, an Individual Investor. Please go ahead.

Nisarg Vora

Sir, I wanted to ask that what are our economics on the co-lending side? And, like in the future, we are increasing our focus on secured loans. So, what percentage are we aiming that a secured loan should be of our portfolio?

Deepak Aggarwal

So, to give an answer to your first question is, the commercials are more or less same. We take co-lending at a same rate at which we take term loans. So, we earn equal amount of interest spread. How it helps, co-lending helps is on-tap liquidity. It's more of a liquidity play. So, these days, I'm securing term loan at 13%, co-lending is at 14%, but that should come down in couple of months. So, that's the answer to your question number one. The second in terms of, secured. So, I think incrementally we will increase.

So, as Mayur said that, we are aiming for 20%, 25% this year, maybe 30%, 35% next year, 40%, 45% year next to that. But we want to take majority portfolio into secured segment or maybe in the next 5 to 6 year, maybe 75% to 80% of the portfolio into secured. It only depends on the cost of borrowing. So, because, see, I don't want, for example, if I had a borrowing rate of 13%, 14%, I would not like 100% of the portfolio to be secured. So, incrementally as our cost are reducing, we want to do more and more secured to lower opex.

Nisarg Vora

Right. And is it more difficult to get customers for secure loan because, like, I was talking to some employee from one of our competitors, and they were mentioning, like, a transitioning from secured to unsecured is a difficult thing because secured customers are difficult to get. Is that the case?

Deepak Aggarwal

Mayur, do you want to take this up?

Mayur Modi

Sure. So, there's some proof in that. So, obviously unsecured being unsecured. Obviously, the origination is much faster, easier, and so are the risks. But yes, what we've been doing is, we've kind of read into some of the existing models in terms of how people are doing secured, what are some of the key things documentation becomes a key, collateral management becomes a key. So obviously, there is a learning curve that happens within the system. And there is a lag, which happened in the origination, but what we have seen is, the benefits far outweigh the small operational hiccups or the challenges that come with originating a secured portfolio.

What we have also done is, we have tried to build that intelligence within the existing teams itself instead of hiring new members in the team with a specialized focus, because then you kind of created two different teams within the branch network, which we believe is not the optimum utilization of a resource. So, we've spent a lot of time and energy in training the existing teams, in terms of understanding the documentation, law of the land, the regulations, and other aspects of securing or sourcing a secured, which took us a bit of time.

I know it took us 6 to 8 months to kind of come up to speed, but once the branches came up to speed in terms of sourcing secured, I think the transaction becomes faster. Right? So, the various approaches that you can approach or apply, but we felt that training the existing teams in the long run is a much better bet than creating a completely new team for secured business.

Nisarg Vora

Got it, sir. And, sir, would you give any guidance on the cost of borrowing in the future? What are our plans for that?

Deepak Aggarwal

So basically, it depends on the time frame. Again, if you're talking about medium 2 to 3, the 3 year kind of time, I would say it should be in line with larger peers, which is around 10%.

Nisarg Vora

Okay, got it. Thank you.

Moderator

Thank you. We have a follow-up question from Bama Dutta an Individual Investor. Please go ahead.

Bama Dutta

So, sir, you mentioned in a fellow investor question that your criteria is having like for unsecured loan to Cattle, like 5 minimum Cattle to be there. And, my question is like, what about the Kirana store? I mean, what is the criteria for the Kirana stores you take? And second thing is that, in second slide, you've mention like INR 25,000 per month is the income, actually that is the criteria. So, my question is, like, while most of the transactions are, like, in cash in those customer or lender, I mean, persons which taking the lending. So how do you verify that the INR 25,000 income? I mean, thinking that it is on mostly like the cash payment.

Deepak Aggarwal

Right. So, that is a good question. See, the part is that's where, we are saying that these kinds of loan are possible, because see, you don't have income statement, IT return, GST, nothing is there. So that's where importance of doing multiple loans in a single segment plays a role. So, if you have done, say 20,000 loans in a Cattle segment, then you have an idea how much per cattle particular breed, particular state with particular land, how much a guy can earn?

And similarly, it is for Kirana as well. You have a method that 80-20, wherein you count the inventory and across multiple say 1,000 borrowers that, if there is this kind of size of shop with this kind of inventory, this kind of sale is possible with this kind of margin. So ballpark, obviously, we'll understand from the customer as well, but there is always a way that on a conservative level that this will be the minimum income for the customer.

So that's what is important in this kind of lending that you understand the segment and based on that, develop their underwriting criteria. So like, sheet-metal fabrication will have 20%, 25% gross margin, Kirana will have a specific margin, garment seller will have a specific margin, hair saloon will have a specific margin. So, as you do multiple cases in the same industry, you realize that how much a guy with 1 chair, 2 chair, 3 chair in a saloon can earn, in the kind of segment where we are doing our business. So that's where market intelligence helps.

Mayur Modi

Just to add to what Deepak said. So broadly speaking, our underwriting principles are based on 3 Cs, which is basically your cash flows, character and collateral in case of secured. And what we've done over a period of last 4, 5 years is that let's say we are taking up almost 250 data points from the customer when a loan officer is visiting the customer. All that he's doing is collecting these 250 data points, and all the raw data that we collect is getting transformed into a structured data at the backend to give us insights into his earnings, expenses, into his assets, what kind of liabilities he's running, that gives us a very good view about his overall net worth, if I can say that.

So that helps us kind of structure are underwritings in a way that we have now very specific, region specific data points to say how a customer is going to behave in a particular segment in a particular region. So, those kinds of data insights are getting incorporated into underwriting models. And we're refining that almost on a daily basis. So those, because of the fact that we have now funded more than 100,000 customers, and it's a good data set to have.

So, we would be running back testing models in terms of understanding what was some of the mistakes that we did in our earlier underwriting, what is it that we need to do better with this set of customers given a specific event that happens in the life cycle of that customer. So, obviously because of fact that formal data sources are not there in terms of information. Obviously, we rely on lot of surrogate information, lot of information that we capture from the customer, and lot of verification that we do in terms of where is he buying from, how much is he buying, those kind of data points go into our underwriting model.

Bama Dutta

Thank you. Very nicely explained and well understood. Thank you, sir.

Moderator

Thank you. I request the participants to restrict with one question in the initial round and join back the queue for more question. Next question comes from Rajesh Kumar, an Individual Investor. Please go ahead.

Rajesh Kumar

Hello sir. Thanks for the opportunity again. My question is regarding the fee and commission income. Now we are QoQ growth of almost 100% in fee and commission income. I would like to know, is it 100% asset light income, like you can declare equity, like coming from insurance product distribution.

Mayur Modi

No. So, as I mentioned earlier, Rajesh, INR 2.44 crores that we have booked as other income, INR 1.69 crore is the fee income that we generated by doing a correspondent business for Utkarsh Bank. Right So that's the elephant in terms of the distribution of the fee income. Obviously, there is an element of bouncing charges, there are prepayment, roughly 1% to 2% of the AUM that's prepaid of a monthly basis.

So that is something that we apply a certain prepayment charge. So that's something obviously when a person is logging in the secured case, there's a login fee which is taken from the customer. So that is also a small part of the overall fee income.

Rajesh Kumar

Okay. Got it sir. And now it is around 10% of the overall income. So, this ratio we'll continue to maintain or will it improve that going forward?

Mayur Modi

This should be in this range, depending on how much is in the correspondent business as a percentage of your total AUM. So that will define, because almost 70%, 80% of the income is coming from that source. So typically, BC stood at 8%. So that is what is getting reflected in your total fee income. So that is how it is. Today, BC is 9.7% of the total AUM, BC business.

Moderator

Thank you, sir. We have a follow-up question from Nisarg Vora an Individual Investor. Please go ahead.

Nisarg Vora

Sir, I wanted to ask that, how and what kind of on ground touch does the top-level management maintain?

Mayur Modi

I can say that, the top team is always there on the ground. I think when you look at top team, it's not only me and Deepak, but the senior management, which consists of CRO, the Operational Heads, the Training Heads and other Departmental Heads. So, what we have done as a strategy is that most of the guys travel for the first 10 days of the month, because there the business actually typically starts picking up after 10th. There are lot of lock ins that happen in the first 10 days and then the business booking starts happening after 10th.

So, the credit team, the training team and then other people from the corporate teams get traveling on a daily or almost on a monthly basis by rotation. So that is something that happens, but yes, other than that, what we have is, we also have other teams like the risk containment unit, which is spread across different branches, doing supplies, audits, visits, to understand what is happening on the ground, plus we have a very strong network of vet doctors who are employed by Moneyboxx as full-time employees, there are almost more than 30 employees.

So, these customers are regularly visiting all our cattle customers, understanding any problems that they have, that gives us a good view of what is happening on the ground. So, there are multiple checks, that happens with the customer at various levels.

Nisarg Vora

Got it. Thank you.

Moderator

Thank you. That was the last question for the day. Now, I hand over the floor to Mr. Deepak for closing comments.

Deepak Aggarwal

Thank you. So, with this, I would just like to thanks everyone. So, you have taken time to be here on this festive season. So, thanks a lot. hanks Ventura Securities for conducting this call. And I wish everyone very very Happy and Prosperous Diwali. And if there are any other points you want to ask, you want to get in touch, you can get in touch with Adfactors PR or reach out to us. And I think, I would say that, we would just want to continue doing what we do, because now that the key product is very proven, and I believe in the next 3 to 4, 5 years, we will cross like INR 5000 crore to INR 6000 crore kind of AUMs with, as we said that about 400 branches. So, we feel we'll continue to grow, and at a reasonably good pace with good ROE numbers. So, that's about it. Mayur, if you want to add anything

Mayur Modi

No, I think, we are very excited in terms of what we are doing, and we feel very optimistic about the business model the way it is shaping up, and we will continue to grow profitably and I'm sure that as you all have seen that asset quality remains a top focus and I think that's the key to growing the lending business, obviously, and that we will continue to focus on asset quality as a top priority item. Thank you so much. And I also wish all of you are very, very Happy Diwali and a very prosperous New Year for all of you.

Moderator

Thank you, sir. Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation, and you may all disconnect your lines now. Thank you and have a good day.

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- Note:**
1. This document has been edited to improve readability
 2. Blanks in this transcript represent inaudible or incomprehensible words.