February 20, 2025

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

Dear Sir/Madam,

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, and further to our earlier intimation regarding the earnings conference call for the quarter ended December 31, 2024, please find attached herewith transcript of the said earnings conference call which was held on February 13, 2025.

The same is also made available on the website of the Company i.e.
https://www.iifl.com/iifl-finance/financial

Kindly take the same on record and oblige.

Thanking You,

For **IIFL Finance Limited**

Samrat Sanyal
Digitally signed by Samrat Sanyal
Date: 2025.02.20 20:43:29 +05'30'

**Samrat Sanyal**
**Company Secretary & Compliance Officer**
**ACS – 13863**
**Email ID: csteam@iifl.com**
**Place: Mumbai**

*Encl: as above*

**CC:**
India International Exchange (IFSC) Limited
The Signature, Building No. 13B, GIFT SEZ,
GIFT City, Gandhinagar, Gujarat - 382355

"IIFL Finance Limited

Q3 FY'25 Earnings Conference Call"

February 13, 2025

**MANAGEMENT:** **MR. NIRMAL JAIN – MANAGING DIRECTOR, IIFL FINANCE LIMITED**
**MR. R. VENKATARAMAN – JOINT MANAGING DIRECTOR, IIFL FINANCE LIMITED**
**MR. MONU RATRA – CHIEF EXECUTIVE OFFICER, IIFL HOME FINANCE LIMITED**
**MR. N. VENKATESH – MANAGING DIRECTOR, IIFL SAMASTA FINANCE LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY'25 Earnings Conference Call of IIFL Finance Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing the "*", then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to the management for their opening comments.

**R. Venkataraman:** Good afternoon, and thank you for joining the analyst call of IIFL Finance. I'm R. Venkataraman, Joint Managing Director. Along with me in this call are Nirmal Jain, Managing Director; Mr. Monu Ratra, CEO of IIFL Home Finance; and Venkatesh, who is the Managing Director of IIFL Samasta Finance. Unfortunately, Kapish Jain, our CFO could not join us in the call because he's recovering from some health issues.

Now I'll ask Nirmal to share the brief picture and the broad macroeconomic outlook.

**Nirmal Jain:** Thank you, Venkat. In terms of big macroeconomic picture, I think the long-term structural growth outlook remains intact, but there's a cyclical slowdown and that has impacted earnings and market sentiment. Coming to NBFC sector, I think the stress is evident in unsecured and microfinance segment and primarily due to rising consumer leverage, whereas the income growth has not been there, the real income has been stagnant.

And a significant portion of the borrowings in the recent past of the unsecured credit has been directed towards consumption rather than productive or income-generating activity, and that has further strained the repayment capacity of the borrowers. The slowdown in IIP to 3.2% further signals the weaker economic momentum. SME growth has also moderated, reflecting broader economic sluggishness.

And additionally, the liquidity remains tight for most NBFCs as banks have restricted the funding access and most of the NBFCs are encouraged to diversify the sources of funding. And that reduced availability of credit and rollover options for the borrowers has exacerbated the financial stress in the sector.

The Karnataka government's regulation on MFI, although targeted at unregulated entities, is affecting the borrower sentiment and the repayment culture. However, the good news is that the regulator and the government are focusing their monetary policy and fiscal policy stance and narrative towards a more supportive and accommodative approach. And therefore cyclical slowdown is likely to be halted and reversed very soon.

I think maybe Venkat can take you through the -- as Kapish is not there today, through the financial numbers, and we can take Q&A after that.

**R. Venkataraman:** Thank you, Nirmal. Coming to the numbers. For the quarter, IIFL Finance profit after tax before non-controlling interest was INR 82 crores, down 85% year-on-year and up 188% on a quarter-on-quarter basis. Pre-provision operating profit was INR 534 crores, which was down 29% quarter-on-quarter and down 45% on a year-on-year basis.

For the quarter, our consolidated loan AUM fell by 8% year-on-year and was up 7% quarter-on-quarter. It is now INR 71,410 crores. Further dissecting this AUM, our core products loan AUM, which comprises home loan, gold loan, MSME loan, and microfinance, this fell by 6% year-on-year and was up 7% quarter-on-quarter. This segment now constitutes 98% of our overall AUM mix, showing the retail granular nature of our portfolio.

Our gross NPA stood at 2.4% and net NPA was at 1%, which is up 70 basis points and 14 basis points, respectively, when compared to the same period last year. This is due to asset quality stress in microfinance, unsecured loans, small ticket LAP which reflects the overall sluggishness in the Indian economy.

The assigned loan book stands at INR 12,472 crores, which is down 33% year-on-year and 11% quarter-on-quarter. We also have co-lending assets of INR 9,236 crores, which is down 20% year-on-year and up 9% quarter-on-quarter. While co-lending assets grew and has met expectations, the assigned assets declined due to reduced availability of eligible and seasoned book.

This is an outcome of RBI's embargo, which constrained new loan origination and hence the pipeline of assignable and available assets. We expect assignment volumes to recover as fresh disbursements pick up over time. Our quarterly average cost of borrowing increased 9 basis points year-on-year and 1 basis point quarter-on-quarter to hit 9.16%. During the quarter, we raised INR 9,964 crores through term loans, bonds, and commercial paper and INR 1,477 crores was raised from assignment.

Our cash and cash equivalent and committed credit lines from banks and institutions stood at INR5,656 crores. This is adequate to meet near-term liabilities, but also fund growth. We have a positive ALM in all buckets and our net gearing is at about 3.1x. Our annualized ROE for the quarter was 1.4% and ROA was 0.6%. Earnings per share for the quarter was INR1 per share. Our capital adequacy for the NBFC is at 22%, HFC at about 46.2%, and for Samasta Microfinance is 32.2%, which is well above the minimum threshold of 15%, reflecting our off-book strategy and growth model.

With this, I come to the end, and we are open to questions that you may have. And thank you once again for joining us.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal.

**Abhijit Tibrewal:** Sir, two questions really. First one on your gold loan business. I think we saw some good momentum during this quarter, almost 39%, 40% up Q-o-Q. Just trying to understand somewhere I think we have also guided that by the end of this year, we want to get closer to where we were prior to the bank. So I mean, what progress are you making in that direction? Is the demand strong enough for us to get us there?

And then in your press release, you've also spoken about some pressure on gold loan yields since you've been trying to regain customers. So just trying to understand again what is it that you are doing there and what impact it could have on your gold loan deals going forward?

And the second question I had, again, was on the MFI business. Undoubtedly, the sector is going through its share of pain. We have seen that in other MFIs as well. For us, in our assessment, what is the extent of the pain? And is there any ballpark credit cost guidance you can give out? And for us, by when do we expect things to start improving maybe 1, 2, 3 quarters from here? Those are the 2 questions.

**Nirmal Jain:** Yes. Taking your first question, gold loan volume growth is there, but the portfolio yield is down by almost 2%. The way this industry works is that normally basically to get the customers onboarded in a very competitive environment, one has to offer lower rate. Over a period of time, the rate improves. Most of the times, the customers basically opts for a product and the conditions which basically allow them to take lower rates like monthly interest on a lesser LTV. But over a period of time, this gets stabilized.

So for the time being, it looks like that our volume growth will be stronger. So we -- at the time of ban, we had 10,000, then we went up to 11,000 in the 10 days after the ban in September then 15,000. And more likely, our target was to go back to 24,000 to 25,000, where we were. We may fall a little short of it, but still we will be closer. But it will come at some compromise -- some small sacrifice on the yield, which we hope to make it up in the next financial year fully.

Then coming back to MFI, I think the industry has been passing through a significant pain and also not only MFI, but adjacent loans of the cross-selling products of MFI also because the entire sentiment of borrower has been impacted. Maybe to some extent, this is a bit unprecedented. So as things unravel, we are also learning and understanding. So most of the MFI customers, their track record has been good. They have given the small macro or the individual loans. And even those unsecured or the LAP loans performance has deteriorated significantly. What we gather from the market and from the field is maybe if Venkatesh is there, he can talk about it in terms of how does the next quarter look?

Although in the last quarter, also in the beginning, we thought that things will improve, but again, they deteriorated. The borrowers as they know that they are not going to get new loan because of the restrictions on the number of loans or the amount of loan or also many microfinance companies pulling back, then they stop repaying the earlier loan and/or whatever they have because they say that, okay, we are not going to get new loans. So I just -- like I don't want to repay and I want to keep the money for my business or whatever it is.

So to that extent, Venkatesh, you're there?

**N. Venkatesh:** Yes, I'm there. Can you hear me?

**Nirmal Jain:** Yes, yes. So maybe I think you can talk about the way things stand now and how the industry should look at the microfinance asset quality going forward?

**N. Venkatesh:** Sure, sure. Thanks. I mean in terms of the asset quality, if you look at what -- in the last 6, 7 months, what the industry has gone, it's a little unprecedented, given that the industry implemented the guardrails and how the things have panned out.

Most of the states have shown improvement in collections. As in the initial remarks, what Nirmal had pointed out that Karnataka's ordinance is where slightly the Karnataka historically, even during this phase was doing well, but a slight thing, though the ordinance clearly talks about it is not for regulated entities.

We expect slight disturbances for a couple of months or so till people -- I mean, even now if you look at it on the ground, most of the stakeholders have understood that it is not for the regulated entities and things, but slight disturbances will affect Karnataka for slightly little thing. On an average, we will be looking at a credit cost of around, for this, around 8% to 8.5% kind of a thing.

**Abhijit Tibrewal:** And sir, I mean, there are other MFIs also who have started now reporting their current bucket collection efficiencies just to kind of impress upon us that maybe December, January things have gotten better versus October and November. Is this something that we have also seen and/or for us, I mean, things are still where we were in October and November?

**N. Venkatesh:** Yes. As I pointed out earlier, if you look at most of the states have started improvement in collections, especially on our zero-day bucket. I think the forward flow in the zero-day bucket is slowly coming down. So that was the initial thing. So yes, things -- I mean, the things have improved in the last 3, 4 months. I mean post October, I can say November 15 onwards is where we saw the improvement happen.

**Abhijit Tibrewal:** And sir, it has sustained in Jan as well?

**N. Venkatesh:** Yes, Jan also it has sustained. Yes.

**Moderator:** The next question is from the line of Yash from RSPN Ventures.

**Yash:** So first question is with regards to the home loan segment. I think the IIFL Housing Finance has recorded a 20% decline in profits. So if you could just provide some color on the same.

**Monu Ratra:** Yes. Nirmal, may I?

**Nirmal Jain:** Yes, go ahead.

**Monu Ratra:** Yes. So what you are looking at -- I believe you're talking about quarter-on-quarter, right?

**Nirmal Jain:** I think on a year-on-year basis.

**Yash:** Yes.

**Monu Ratra:** Yes. So if you look on the quarter-on-quarter basis, Yash, in the last quarter, we had a very significant interest strip income, which was there. And if you see our numbers, which are net of the interest strip income, which in this quarter was actually negative, which was there. And one, the YTD adjustment of FPC, which RBI had implemented regarding the fair practice code, we put together. So there's actually a quarter-on-quarter increase of 2% in our profit. So on the actual cash basis, we are still positive by 2%, Yash.

**Yash:** Actually, sir, I meant it on the year-on-year basis.

**Monu Ratra:** Yes. Okay. So if we're talking about the year-on-year basis, the decline which we are seeing is primarily for 2 reasons. One is, again, slightly increased our cost of funds, which was there, marginal. And the other is the credit cost. So we have -- ever since we have had a pretty, I would say, a very conservative write-off policy which we have. These are majorly technical write-offs, which are there, which are actually not write-offs, which are there as we're seeing some stress in the micro LAP portfolio.

So if we see that -- so the slight increase in the credit cost is the major reason for it. But we're pretty confident of these technical write-offs to give us decent recovery in the coming quarters. But as it is, ever since COVID times, we have been pretty conservative on the -- our write-off policy and the SICR policy. So it's more from that standpoint, Yash, but we are very confident of all these loans being coming in, in the next 2 quarters.

**Yash:** Secondly, with regards to the construction and real estate finance, I think the AUM has gone down by 58%. Are we supposed to -- are we planning to regrow the AUM or are we going to cut it down more?

**Monu Ratra:** So I think you would be seeing this at 2 levels. If you see it at the housing finance level, actually there's been a slight -- it's flattish. But overall, at a group level, I'm sure Nirmal can answer better on this. We have been averse to the real estate business. But as far as HFC is concerned, standalone, it's pretty flat. And we do see some headroom for growth in the HFC on the construction finance business, which is a pure construction finance for affordable units.

**Nirmal Jain:** So the construction finance that we are doing now is primarily -- so earlier, one used to do it on a collateral of land also and unapproved projects, but now it's done for projects which have got all the approvals. And the funding part is only for the construction and not for the land or any other cost of sort of bringing the land to the approval stage.

So to that extent, there are two advantages. One is the risk is much lesser because the borrower equity is much more. And two, this also dovetails into our home loan product because most of the cases that we fund, we can be one of the priority lenders for the customers. But obviously, ticket size is smaller and the portfolio performance significantly different and better.

**Yash:** And just a couple of more questions. With regards to gold book, when do we see the gold book getting to the normalized levels? And secondly…

**Nirmal Jain:** This year is -- so next financial year, maybe from first quarter itself, we'll see that the yield coming back to the normal levels. The whole year will be normal. The first quarter -- so supposing we are lower on by 2 percentage points, I mean I expect at least 1% to be recovered in the first quarter of the new fiscal year itself. But it's very difficult to be precise on the forecast. But at least whatever sentiment we pick up, I think this is what I would expect.

**Yash:** And also we have the AUM size, like we are at 15,000 odd right now. When do we expect it to reach to around 25,000 levels?

**Nirmal Jain:** 25,000 you're saying?

**Yash:** Yes.

**Nirmal Jain:** I think the year we should end at around 22, 23 and it will take maybe some more time to get to 25.

**Yash:** And the last question would be in regards to the MFI loans. So are we bottoming out on the provisions? Or do we expect the provisions to increase furthermore the GNPA ratio that I'm talking about? So are we expecting bottoming out or how is it?

**Nirmal Jain:** See, at this point in time, we expect -- again, because the industry has been so fluid and is passing through all kind of problems and new problems. But I think that we should be bottoming out now.

**Moderator:** The next question is from the line of Aagam Shah from Flute Aura Enterprise.

**Aagam Shah:** I just had one question, and I think Yash had already asked it, but I just want to clarify. The gold loan AUM will be back by next financial year, right?

**Nirmal Jain:** So gold loan AUM will be back by mostly, maybe in a very close vicinity of wherever we were by this financial year-end, which we are talking about March '25. Yield will be back to normal in the next financial year.

**Moderator:** The next question is from the line of Anusha Raheja from Dalal & Broacha.

**Anusha Raheja:** I just wanted to understand why there is a reduction in the assigned assets on Q-on-Q basis?

**Nirmal Jain:** So as per RBI regulations, you can assign the assets, and they require minimum seasoning or minimum period on your book of 3 months if the asset duration is less than 2 years and 6 months if asset duration is more than 2 years. So, you can assign book only of the assets which have been on your books for minimum 3 to 6 months. But practically because after that 3 months, you give it to the rating agencies, and you give it to the potential buyer of the assets. So, it takes another 1 to 2 months.

So normally, the 4 to 5 months lead time for, say, gold loan and 7 to 8 months for the other products before it is ready to assign. So, this seasoning requirement is RBI regulation that you can assign assets only after they stayed on your book for certain minimum time period.

**Anusha Raheja:** And sir, incrementally assigned assets and on the co-lending side, which of the assets are the assets that have been assigned? Is it MFI or gold loan?

**Nirmal Jain:** All the assets, the gold loan, the home loan, and even MSME for that matter. So, all the products that we do are all assignable assets. When there's a disruption in the first half, then it will take us 4, 5 months, 6 months for the assignment book to be ready in a significant manner for size.

**Anusha Raheja:** And from the asset quality side, there was an increase in the secured business loan as well in this quarter. So how do you assess overall MSME loan secured plus unsecured asset quality -- from asset quality standpoint going forward? So how do you see that shaping up? And what could be the consol credit cost number that we can expect for Q4 or, say, for that matter in FY '26?

**Nirmal Jain:** So, the entire segment of high-risk credit which is unsecured as well as micro small ticket secured. They've been very badly impacted. Many a times these borrowers are also MSME, and they need it for working capital of business, then overall system credit reduces, they are not going to roll over. And also, the whole sentiment, everything also gets impacted. So, the business slows down, the income slows down, the repayment default happen.

And so, when we say if you -- on Slide 12, we have now given a breakup of MSME secured, which is LAP and unsecured, which are sourced by 3 different entities. And what has happened is the Samasta, which is a microfinance entity, their sourced assets have suffered the most because they are the same set of borrowers who are also microfinance customers.

Typically, in the microfinance industry, 25% of the book can be non-microfinance. And it was actually supposed to be a diversification and a better -- so the individual -- so what happens, microfinance is given to a group of women, typically 5. When they have a good track record, say, for 2 years, 3 years, then individually microfinance companies will lend them sometimes unsecured and sometimes against some property.

Now the property is also in the rural or areas where they live and the property can be a deterrent, but their repayment will happen with the cash flow. When their income and cash flow is impacted, then you see that unsecured as well as the small ticket secured, both get impacted similarly. But NPA might show similar trend.

In case of property, our experience is that ultimate default should be lower because you have ability to take the property or that basically makes the borrower get finance from somewhere but not lose the property. So, the ultimate losses might be lower in the LAP segment, but GNPA is impacted by cash flow, which is similar impact on -- that actually depends on the profile of the borrower.

**Anusha Raheja:** But I just missed on to a credit cost guidance for the MFI segment. What did you -- what was mentioned?

**Nirmal Jain:** I think Venkatesh spoke about it, that 8.5% was his guidance. Venkatesh am I right, that's the number you said?

**N. Venkatesh:** Yes, that's 8% to 8.5% is what it will be around.

**Nirmal Jain:** Thank you.

**Anusha Raheja:** And sir, on the construction finance, I think sequential growth has been quite on a higher side. So, if you can just give some color as to how do we see this segment's growth shaping up over the next 3 to 6 months' time because this forms one of your noncore segment, right? And what is the -- so what explains such a sharp rise? And what is the strategy of growth in this segment and incremental increase?

**Nirmal Jain:** Why you are saying that construction finance is a sharp rise, Where is this number. Actually, it is a decline there, significant decline.

**Anusha Raheja:** Construction finance book.

**Nirmal Jain:** **No,** has gone down. Look at Slide 11 actually.

**Anusha Raheja:** Okay.

**Nirmal Jain:** Probably you see a sharper rise in capital market, but this is on a small base. So -- but otherwise the construction finance book has fallen 39% quarter-over-quarter and 69% Y-o-Y.

**Moderator:** The next question is from the line of Murthy Nagarajan from Tata Mutual Funds.

**Murthy Nagarajan:** So, this question is directed to Nirmal. Sir, can you give us some idea about what is happening recently in this company right now? So, this is something…?

**Nirmal Jain:** Bandhan Bank?

**Murthy Nagarajan:** Yes, so which we are reading in the news. So, if you can give us, throw some light on that.

**Nirmal Jain:** No, I'm sorry, Bandhan Bank, how would I be expected to throw some light? Bandhan Bank you're saying, right?

**Murthy Nagarajan:** Yes. So, what has been happening recently in the company? Like if you can give us some light or can you give us some idea about what is happening?

**Nirmal Jain:** So you're saying in our IIFL or where, IIFL you are saying, right? Murthy, I can't get your question. Can you repeat it?

**Murthy Nagarajan:** Sir, actually I'm…

**Moderator:** Hello. Mr. Murthy, can you hear us? Hello. As there's no response, we'll move on to the next participant. It's from the line of Varinder Bansal from Omkara Capital.

**Varinder Bansal:** I think maybe Mr. Murthy also wanted to have some light on the news, which was going around the income tax, okay, raids at the IIFL.

**Nirmal Jain:** So I was responding to the question about income tax by Murthy earlier, I think. So income tax had a search in the office premises of all our group companies as well as the residential premises of some of the key employees, including mine. And the search, they have right under Section

132, where basically they take -- I mean, they check documents, take data, take statements of various people.

Obviously, they have some suspicion that there could be some undisclosed income or underreported profit. But as a company, we follow the highest standards of governance and compliance of tax as well. So we gave all the statements, documents as required. And the search started on 28th of Jan and it concluded on 2nd of Feb or maybe 3rd February morning, so 5, 6 days, it was there in various devices.

**Varinder Bansal:** So any results, sir, of the income tax raid we have?

**Nirmal Jain:** Okay. The way the process is, Varinder, that there's nothing which was there for us to declare or do anything or for them to do anything at this point in time. But once they collect all the data and documents, then the process that I'm told is that they will make something called appraisal report, which goes to -- which can take about 3 months, which goes to assessing officer. Then if he believes that the income was not reported fully, then they give a notice to the company, the assessee that is us, that you file a revised written within 30 days.

And if you do not file revised or after revise return is similar to what it was and then assessing officer sees that still there is a cause for doing an assessment differently, so they can do it and for which you can go and appeal against it in case they are not satisfied. But at this point in time, we don't have anything beyond this.

**Varinder Bansal:** My second question, sir, in the press release, you have mentioned that we believe the worst is behind us. So just hypothetically thinking that we have taken all the pain of the technical provisions in the last 2, 3 quarters. So next quarter, we will not be having more technical provisions coming in and hopefully, the quarter 4 will be better than quarter 3 and progressively.

**Nirmal Jain:** Yes. So if you look at the average loan book of gold, from the where it was the lowest in last quarter because it has been declining till September and has -- we started to resume, but still the yield and gold loan has been impacted very badly.

In terms of provisions, yes, I believe that we have taken, in case of MSME, our insurance cover starts from the loans, I think from September or October. In microfinance, I think some pain is still there, but it may not be as bad as the third quarter, which was the worst ever quarter.

So all put together, I think that worst is behind us and things will improve. Also if you notice that even the RBI directive and the government has also been pro-growth and pro-supportive stance rather than the sort of a tightening or more the regulatory actions, which have been very stringent in the last few months. So all things put together, they are very good industry. We think that things should start improving from here and this will improve significantly as we go forward.

**Varinder Bansal:** Sir, my last question, if permitted. We also hear that ADIA has been pushing for demerger of the home finance business. Any update on that?

**Nirmal Jain:** No, there's nothing. RBI has no view of this. I don't think RBI…¦

**Varinder Bansal:** ADIA, sir, I said, you know.

**Nirmal Jain:** ADIA. No, ADIA is a long-term investor. So I think there is some understanding that they are invested for at least 7 years in terms of their own investment horizon. So it will be done strategically whenever it's appropriate time. So I don't think there's any push or pull from anywhere for demerger or otherwise.

**Moderator:** The next question is from the line of Desmond Lee from Wellington Management.

**Desmond Lee:** Just maybe 2 items here. Can I ask you about the capital levels for the standalone entity? I noticed it declined Q-on-Q by quite a bit. I think about 22% now from 26%. Just wondering, can you provide some forward guidance as you regrow your loan book, will your earnings be able to follow that loan book growth and maintain a capital level? Just want to get some sense whether this number will cover or will it fall?

**Nirmal Jain:** You're saying capital adequacy has fallen from?

**Desmond Lee:** 26.3% to 22% Q-on-Q. So just wondering any forward guidance on where you want to bring capital?

**Nirmal Jain:** Yes. So the capital adequacy margin is down because the loan book has grown, Mr. Lee. And as I said that the assignments have been much lower because they require seasoning. So the way our long-term strategy on the capital efficiency has been if the loan book grows, then that consumes your capital. But if you are able to sell those loans along the risk, then that reduces the capital.

So last quarter, our assignments have been much lower because the book has not seasoned. But loan book has grown pretty smartly in case of gold. And also the subordinate debt or the Tier 2 capital falls when the bond maturity reduces to less than 5 years, then you can't consider them as Tier 2. But we can always -- in this quarter, we've raised more subordinate bonds. And when we assign the assets, then the capital adequacy will be restored to the earlier levels. So, we are watching it very carefully, but it's just sort of a phase that it has dipped a little bit. And we have enough cushion actually because we are far above the regulatory levels.

**Desmond Lee:** So just to clarify. So as you start to pick up on the assignment, again, you expect capital levels should get better from here or?

**Nirmal Jain:** Yes, so when we do assignments, the capital adequacy is a function of the risk assets on your balance sheet and what your own capital is, your own funds are. So your own fund basically will increase by profit, which also have been much lower in the last quarter for reasons that we discussed. And your risk assets have gone up because we have not assigned. So when you assign the assets to banks, along with the risk, the risk assets go down, which is the denominator and the capital goes up.

So to summarize, you're right that as assignment picks up and as we raise subordinate bonds, both of these things will contribute to higher capital adequacy. At the same time, when the loan growth happens, then the capital adequacy goes down.

**Desmond Lee:** So maybe just one final question from my side here. Maybe just on the liquidity side. It seems like the liquidity buffer has weakened compared to pre-ban levels. Just wondering, are you taking steps to improve that free cash plus undrawn lines buffer going forward? I noticed you've issued a dollar bond since then -- since the quarter end. So maybe just some thoughts on your liquidity position, where you want to maintain that going forward.

**Nirmal Jain:** So these numbers are as of December 31. At that time the liquidity buffer is close to a little less than INR6,000 crores. The dollar bond issue money came on the 14th -- sorry, 24th of January in this quarter. So the liquidity as we speak is back to the normal level, but you don't see them in these results, you see them in the next quarter. The dollar bond issue happened in January, these numbers are of December.

**Desmond Lee:** So can you give us an updated level, just thinking coverage of your next 3 months debt and interest payments, would it be higher than the next 3 months payments?

**Nirmal Jain:** No. We are very well covered for next 6 months of interest and principal payment.

**Desmond Lee:** Next 6 months.

**Nirmal Jain:** Actually for the contractual, we are covered -- yes, our 6 months total maturity is -- I mean, I'm talking in Indian rupees INR5,297 crores. And our liquidity as of 31st December was INR5,656 crores. And now in the month of January, we have further added. So we are well above requirement for the next 6 months.

**Moderator:** The next question is from the line of Gokul Raj from Bavaria Industries Group.

**Gokul Raj:** Could you speak a little bit about the availability of funds for growth? And also if co-lending and asset management partners, is it similar to what you see in terms of pricing and availability of funds? Or has there been any structural decrease in the -- or addition in the premium that we are looking for?

**Nirmal Jain:** So availability of the fund is not an issue, but the cost is an issue and the dollar bond that we have raised in the month of January with full hedging, the cost is significantly higher. It's almost kind of double digit, and that will impact the weighted average cost of fund going forward. But the availability of fund is not an issue. We are able to raise from banks, mutual funds, and the external commercial lenders or investors as well.

**Gokul Raj:** So when do you expect -- you said roughly you will catch up on the yield side, let's say, in a year or so. So let's say, from a spread point of view, when do you think it will get normalized?

**Nirmal Jain:** Your voice is echoing, so I couldn't hear it properly. Can you please repeat?

**Moderator:** Mr. Gokul, can you please use your handset?

**Gokul Raj:** Is it better now?

**Moderator:** Yes, please, go ahead.

**Gokul Raj:** I was just asking on the yield side, you have mentioned that within a year, you expect the yields to normalize on the gold loan side. So from a spread point of view, when should we expect the economics to return to the pre-ban level?

**Nirmal Jain:** I think next financial year as a whole and, of course, the trend will be evident from the first quarter itself.

**Gokul Raj:** And from a growth point of view, I know growth probably may not be the first concern at this point. But from a growth point of view, any broad view on how you are thinking about growth next year?

**Nirmal Jain:** I think whatever we are seeing now in terms of -- as I said, even the cyclical slowdown seems to be reversing. And I think we should look forward to a strong growth next year. And we don't give any forward-looking guidance. But I think this year has been a year of consolidation, challenges, as well as certain unexpected things that happened.

Next year should be a very strong growth on a base. From a trend line point of view, this year is like more or less stagnant compared to last year in terms of size. So next year should be a very -- I'm very optimistic on the next year's growth.

**Gokul Raj:** Sorry, on assignment and co-lending, you said the yields have increased, sorry, the costs have increased, but has all the partners on board and the quantum of lines that they give to you for this co-lending or assignment, do you think that's pretty much similar to the pre-ban stuff?

**Nirmal Jain:** So the cost across the industry for NBFCs in particular has gone up. Now this is was the story till December. What we are seeing now is that the unanimous consent of MPC to reduce the rate and also it looks like that RBI seems to be committed to make sure that the liquidity issues do not arise. So I think that the cost of funds also seem to have peaked out. But the impact of -- okay, what happens is that, as I said that we raised high-cost money in the month of January. So your March quarter impact will be there of the cost of fund. But beyond that, I think the incrementally we see cost of funds moderating.

**Gokul Raj:** And last question would be on gold loans. Has there been any change in the type of product? Is it getting more EMI based? Or is there any change from how we were doing the business pre-ban to now? And so once you get back to the old peak, should we expect normal growth? Or is there something different that we should think about?

**Nirmal Jain:** So as of now, we'll have a faster growth as we are recouping our customers and business. But next financial year, we should see normal growth.

**Gokul Raj:** And on the product mix change, is there any higher product EMI-base gold loans that's happening? Or is it just a normal mix similar to…?

**Nirmal Jain:** So our focus is more on retail, smaller ticket loans, but I think mix will be more or less similar to what it was. We have cut down on the -- so the larger ticket loans, strategically, we want to focus on the small ticket customers more as compared to the larger customers.

**Moderator:** The next question is from the line of Murthy Nagarajan from Tata Mutual Funds.

**Murthy Nagarajan:** Yes. Am I audible now?

**Nirmal Jain:** Yes, Murthy, go ahead.

**Murthy Nagarajan:** Yes. So I want to know on one thing, like how is the next 2 years, 3 years, how do you see the composition of your balance sheet changing? How much will be a gold loan? How much will be unsecured? If you give us some breakup on this.

**Nirmal Jain:** Yes.

**Murthy Nagarajan:** Or you got some idea about how you would like to go?

**Nirmal Jain:** Yes, I'll tell you, Murthy. So one is that the microfinance industry has undergone a fundamental change in terms of -- because the new guardrails, which restrict the loan amount to broadly say INR2 lakh instead of INR3 lakh, number of lenders from unlimited to 4 or maybe 3 going forward.

So microfinance growth, which was a significant driver of growth in the last 3 years will not be -- will not see much growth. And as of now, they've seen decline. So what we will see is that the microfinance, which are, say, around 15% of mix or 14% right now will go down to 10% or even maybe slightly lower than 10% over the next 2, 3 years.

Gold loan will continue to be strong and home loan as well. But within MSME, we'll see that the secured piece will grow faster. The other thing like personal loan, we have discontinued, which we had earlier with Zest and Nira, some partnerships which we have done in '22, '23. Construction real estate has already declined, will not decline now, but will see a relatively slower growth. So in terms of mix, if you see the current mix, then home loan is 42%, gold loan is 21%. But this is because gold loan was impacted in the first half. So both these will be around, say, 1/3, 1/3 of our total portfolio.

And microfinance may be around 8% to 10%. And then another 20%, 25% will be MSME loan, 25% or so, which will have 2/3 or 70% will be secured and the remaining will be unsecured. Broadly speaking, our unsecured -- our target is to bring it to 15% or lower of the total portfolio.

**Murthy Nagarajan:** But this will also affect your margins, right, going forward?

**Nirmal Jain:** That's a good question. But gold loan margins are good. And secondly, in the home loan also because we are able to sell down the asset, the margins are -- I mean, probably are pretty okay.

So there will be some advantage of cost-to-income ratio also because when the book shrinks for whatever reason, cost-to-income goes up.

So yes, while the NIM will be a little lower, but cost-to-income will also come down. So on the ROA level, there will not be much impact.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

**R. Venkataraman:** Thank you so much for joining us on this call. And if you have any other further questions, please feel free to reach out to our Investor Relations department or Veenashree and we'll be more than glad to answer your questions. Thank you so much.

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