October 31, 2024

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

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 September 30, 2024, please find attached herewith transcript of the said earnings conference call which was held on October 24, 2024.

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

Further, we hereby confirm that no unpublished price sensitive information was shared or discussed during the said earnings conference call.

Kindly take the same on record and oblige.

Thanking You,

For **IIFL Finance Limited**

Samrat Sanyal Digitally signed by Samrat Sanyal Date: 2024.10.31 19:51:21 +05'30'

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

Encl: as above

"IIFL Finance Limited Q2 FY'25 Earnings Conference Call"

October 24, 2024

MANAGEMENT: **MR. NIRMAL JAIN – FOUNDER & MANAGING DIRECTOR, IIFL FINANCE LIMITED**
MR. KAPISH JAIN – CHIEF FINANCIAL OFFICER - IIFL FINANCE LIMITED
MR. MONU RATRA – CHIEF EXECUTIVE OFFICER - IIFL HOME FINANCE LIMITED
MR. VENKATESH N – CHIEF EXECUTIVE OFFICER, IIFL SAMASTA FINANCE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Finance Q2 FY'25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kapish Jain – Group CFO, IIFL Finance. Thank you and over to you, sir.

Kapish Jain: Thank you very much, ladies and gentlemen, for joining us joining in our Q2 Earnings Call for financial year '24-25. And I just would hand over the line to Mr. Nirmal Jain – our Founder & Managing Director to give you a perspective on the Company's Performance for Q2 before I take it back again and talk on our Numbers as well.

Nirmal Jain: Thank you, Kapish, and welcome everybody on the call.

As all of you are aware about the RBI that RBI had put an embargo on the gold loan business in terms of sanction, disbursement on March 4th of this year and the same was lifted on 19th of September over six and a half months later. So, I think we have been able to satisfy RBI with our compliance rectifications and all the corrections that we did, and we have strengthened our compliance as well as all assurance functions which comprise risk and audit as well and we continue to do so.

So, while this period has been challenging but we came stronger from this and this is something that would have happened to many strong companies that they faced short term challenges and in the last one month what we are seeing is the resilience of the Company and the team that we are coming back strongly. The customers renewed loyalty is also very heartening and satisfying.

As we restarted our business in the month, you would have seen that the gold loan book which had fallen from 26,000 crores to around 10,000 crores by the time the embargo was lifted, is around 12,000-odd crores now. And as you know, we could apply to banks only after the embargo was lifted and banks have a process of three to four weeks. So, we expect the liquidity to improve and that will allow us to continue to grow the book at a good pace.

Otherwise, the environment is very good about the gold loan as well as MSME business. All our businesses, even the affordable home loan business, also we are seeing that the demand is picking up as interest rate seem to be peaking out. We will see that the demand growth continues. The new government has also reintroduced something in a modified form, affordable housing incentives through PMAY schemes and so on.

Microfinance business has been passing through a bit of challenging times. Maybe later in the question-answer we can discuss this more but primarily because after the liberalization of loan to the microfinance or self-help group, there have been concerns about overborrowing by these customers and then MFIN came up with the guidance of not more than four loans per customer and that basically has led to some bit of stress in some of the borrowers. We believe that it might take maybe this quarter, next quarter, but again the business will bounce back with strength.

With this, I hand it over to Kapish for a more detailed discussion on Financials and then we will join you back for our Q&A.

Kapish Jain: Thanks a lot, Nirmal.

For the 2nd Quarter Fiscal ‘25, IIFL Finance at a consolidated level reported a net loss before non-controlling interest of 93 crores, so it's down by around 118% YoY and 128% QoQ. We recorded a pre-provision operating profit of 732 crores which is around 21% YoY and 13% on a QoQ basis.

For the quarter, consolidated loan AUM degrew by 8% on a YoY basis and degrew by 4% on a QoQ basis to Rs.66,964 crores. Our core AUM or we call it as the product that we are focusing on is microfinance, gold, home, digital and loan. It de-grew by around 7% YoY and 4% QoQ to Rs.65,145 crores, forming around 97% of the total overall loan AUM. There was one exceptional item which we had reported in the financial, which is also elaborated further on Slide #5.

So, the Company has certain AIF investments which are due to mature in June '24 for which it preferred in-specie distribution of assets, i.e., debentures of the underlying companies in lieu of its AIF investment. Subsequently, these debentures were assigned to an ARC. The book value of the SRs with the same underlying assets as of September '24 was 586.5 crores.

The RBI Circular on December 19, 2023, on investments in AIF required 100% provisioning of ARC investments if they are not liquidated within 30-days of the circular. To comply with the spirit of this circular, a provision equivalent to 100% of the book value of these SRs was made in this quarter, which caused an overall loss. However, this is an absolutely exceptional item. We do not expect this to recur and the same is disclosed as an exceptional item.

On the business-as-usual basis, our gross NPA stood at under control at around 2.4%, and net NPA around 1.1%, which is marginally up by 51 basis points and 3 basis points respectively compared to the same period last year.

Our ECL provision gives overall provision coverage on the NPA assets on 136%. The assigned loan book stands at around 13,948 crores down by 24% YoY and 5% QoQ. Besides these, there are co-lending assets of 8,489 crores which is again down by 20% YoY and all of this is led by because the gold embargo was largely in place for the last six months.

Quarterly average cost of borrowing marginally increased by 12 basis points YoY to around 9.15%. From a liquidity perspective, during the quarter we raised around 3,216 crores through term loan, bonds, commercial papers, including 1,882 crores was raised to reassignment of our loans.

From a cash and cash equivalent perspective, we hold around 3,882 crores which is adequate to meet our near-term liabilities, and we are looking for as Nirmal mentioned for the mobilization of liquidity to boost our growth since the embargo has been lifted.

We are positive on ALM across all our buckets and our net gearing with the infusion of capital that we raised in Q1 of 1,272 crores. It's comfortably placed around 2.7. Our annualized ROE stands at around 5.2% negative while ROA was 0.7 negative. As of 30th September, our capital adequacy with the infusion of capital stands at around 26.3%. In the Housing Finance it is 49% and for Samasta it is around 30.5%. So, across all the entities, the capital adequacy is way above the minimum 15% requirement from regulatory perspective.

So, that's all ladies and gentlemen, I will now open the floor for questions and answers.

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

Dhaval: Just two questions. One is relating to this AIF provision that we have created. When do we expect the writeback, any thoughts around that would be useful? And the second question was relating to the gold book. Now, that the ban has been lifted, how do we see the ramp up and when do we get back to our original size like do we have a timeframe and strategy around that, some color around that would be useful?

Nirmal Jain: AIF, all the full recovery of the underlying assets as they get monetized maybe about two to three years. And gold loan, I mean, it's very difficult to say, but I think by March quarter end we should be back to where we were a year before. So, that is what my estimate will be. But I think nobody can really see how things will pan out from here in terms of market, but that's what my guess would be.

Dhaval: Nirmal, just on the gold business come back, like the absolute quantum delta in the next few quarters that you expect is quite material, so what are the one or two big changes has already seen rate but any other points that you want to highlight to sort of see how we get back the lost business?

Nirmal Jain: So, I think we aren't doing anything extraordinary in terms of being aggressive or whatever. Customers are coming back. There has been a relationship with many customers for more than 10 years. And wherever they have taken the loan that gets over, then we see that the customers in many cases prefer to come back to us. And the second one, the thing that has happened in the industry is now I think it's become completely cashless, more, or less. So, it's become completely digital which is easier from a long-term perspective and good for the industry going forward. And what you realize is that earlier there was a fear that if we move away from cash and customers will go back to money lenders. But I think customers have a digital Jan Dhan account or UPI. Sometimes you have to educate and make sure that the activation happens. Even the competition has gotten away from cash. So, that is I think one healthy practice. And I think more or less the industry is now becoming fully compliant and that also is a good development I would say. And given that the gold prices are firm, I think there is a demand at the ground level in the economy. Many of our customers are small businesses again. So, we see that there is good traction going forward in the next few months.

Dhaval: And this last question is on the MFI business. How do you think the credit cost is likely to move in the next like a couple of quarters and how are we looking to navigate the cycle, any color on that would be useful?

Nirmal Jain: I think Venkatesh, who is the CEO of our Microfinance, will take this question.

Venkatesh N: If you look at most of the stress which spanned out in Q2, we are seeing some mild improvement in Q3, I mean, it's still early days for us in the month of October. Given the whole thing, if you look at, given 65% of our overall customers who borrow or agri or agri-allied their income levels, given the monsoons have done well, will not see a dip and we see that these things are stabilizing. And also our fresh lending if you look at it, we introduced our guardrail even much before MFIN bought about it, we have got it in. So, our new book is still doing well. The stress is only with the older thing which will also ease out. By Q3 and Q4, it will look much better.

Moderator: The next question is from Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal: Just again circling back to the gold loan business, we have also seen a management change in our gold loan business; Mr. Saurabh Kumar has moved to a group role now. So, are we now looking to appoint someone internally to lead this business or are we looking for an external hire? Also, I mean earlier in the question when Dhaval asked about your outlook on gold loan business, we shared that we are looking for normalcy to come back by March quarter end and maybe go back to where we used to be prior to the ban. But are we working with some loan growth targets now in mind if not for this year, at least from next year onwards? That is my first question.

Nirmal Jain: No, sorry. What is the second question?

Abhijit Tibrewal: So, the question is, while we said that by March quarter end, we are expecting that we will be where we used to be prior to the ban in the gold lending business, not in terms of loan book, but in terms of momentum. So, I mean if not for this year at least from next year onwards, are we thinking about how we want to grow in terms of some loan growth targets for the gold loan business?

Nirmal Jain: Firstly, the management changes are in the normal course of the business. So, they have been there for long term. So, there is nothing more than that to read into it. In terms of hiring internally or externally, unless they are done it's difficult to make a statement on this because we have quite a few talent available inside also, but obviously they're doing their jobs and at the same time, we also want to strengthen our management team. Actually, normally all our businesses we prefer a cross breed of talent where we try to take it from a few very good players in the industry so that we get the best practices from multiple players. So, these are the things which are very difficult to make a futuristic or a forward-looking statement because we have a very good HR team and NRC, which is Nomination & Remuneration Committee, so they look at all the senior management and take a call on that. Second thing is how do we look at growth next year? So, one is that you would have noticed, when we say digital loan, this is a business loan, and this is the MSME loan and gold loan in a way many of our customers are MSME. So, in terms of when we look at our standalone Company, we will try and diversify it a little bit more, so the loan against property which is the secured business loan and unsecured business loan, I mean that business will grow faster. Next year, growth will depend on number of factors including gold prices as well as the economic activities. So, we don't want to make any guidance or a forward-looking statement, but that all depends on industry and economy. But in terms of strategy for a particular product, yes, we will grow business loan, I mean, given the small base and investment that we made in the last six, 12 months, that is expected to grow faster, but that again as I said depends on the macro environment.

Abhijit Tibrewal: Second question that I had was for Venkatesh. So, I mean while you said that early days seeing mild improvement in third quarter and the fact that we already implemented those cartridges that recently came out. I was trying to understand your assessment, what could likely credit cost be for the MFI business for this full year given that, I mean, we already saw Q2 was elevated? And when we speak to other your NBFC MFI peers, no one is really kind of giving that sense that things have already peaked out in the MFI space. So, how are you thinking about the MFI business?

Venkatesh N: See, earlier when I answered, I said it is early signs of some kind of a stabilization. I didn't say it has peaked out or something, but in terms of the credit cost, if you look at it, we should be hovering anywhere between around 3.75% to 4% kind of a thing for this year.

Abhijit Tibrewal: And the last question that I had, I mean, some of it is data-keeping and some of it is on the credit cost. One is this time around if I go through our P&L on the other income side, some of the items like net gain on fair value changes and the assignment income that you report, they are higher. So, just trying to understand, I mean, are they going to be at these levels or there is something lumpy out there? And also on the assignment income side, have we done any assignments after the goal loan ban was lifted is one thing that I wanted to understand? The other thing is if I look at credit cost for this quarter, credit cost even in our standalone entity was elevated. So, was just trying to understand, was it just some residual cleanup on the gold loan side that we did or this was predominantly coming from our CRE business?

Nirmal Jain: I think you have two questions. One was about the assignment. So, the assignment was done in housing finance because gold loan business has been continuing. And given our strategy where we believe in maybe 40% of the off-book that can be either by way of assignment or co-lending. So, assignment transactions you can expect more or less every quarter. And then second, coming to the lumpy fair value changes, yes, there is one that the NSE shares, most significant part of it has been sold and that profit has been booked in fair value gain of about 80 crores or something. I think that is not recurring but from the treasury we have something or other that there are opportunities, but there is one lumpy item in the fair value gain. You will recall we had NSE shares which we sold in last quarter.

Abhijit Tibrewal: The second question was credit cost in the standalone entity also appeared a little elevated. Was it some clean up that you've done on the gold loan side or was it predominantly coming from the CRE portfolio?

Nirmal Jain: No, it's coming from MSME actually as the MSME book is also growing. So, we increase our provision and we have a fairly conservative provisioning policy. So, the increase in the LLP in the standalone is primarily because of MSME and there you have digital loan and LAP.

Abhijit Tibrewal: Given how the environment is, everyone is talking about broad based stress that they're seeing in unsecured segments. Despite that, I mean, our guidance is that we will continue to grow our digital loans and unsecured business loans, I mean, how are we looking at it in an environment like this?

Nirmal Jain: That is a very good question. So, the worry about unsecured loan is more on a personal loan and consumer loan, which is "Buy Now Pay Later" or a personal loan where many guys, the salaried people, because they offer too many loans, and they get overleveraged. Our focus of digital loan as well as unsecured loan is entirely on business loan. There are two advantages that we have over, say, personal loan business. One is these are covered by insurance. So, I think the government has two very good insurance schemes, CGFMU and CGTMSE. So, the one covers loan less than Rs.10 lakhs and the other one covers loan above Rs.10 lakhs. We have applied and we have got the approval now. The approval has recently come. There is a process and then we have to comply with it. So, from this quarter onwards, we will be able to take advantage of that also. Secondly, all the banks on their own they find it difficult to achieve the Mudra targets or the SME or MSME segment of the priority sector lending. So, we are seeing a very good response from the banks to partner with these loans and also the risk is priced in. So, there will be losses you know which can go up to in a bad cycle up to 5%, 6%, but then the interest rate also is around 20% to 24%. So, our strategy basically is to make sure that we are protected by insurance cover. Of course, our credit quality also we try and be strict and not that we want to underwrite anything, but we try to leverage our distribution network to source these. And third is that the bank partnership model where risk along with the benefit of priority sector is also transferred to bank.

Moderator: The next question is from Shubhranshu Mishra from PhillipCapital. Please go ahead.

Shubhranshu Mishra: So, two questions. The first one is what is the level of provision and write-offs we are going to see in the microfinance business going forward in the next couple of quarters? Second is on the gold loan, are we seeing what is the proportion of customers who are coming up and pledging their gold in order to pay up for their unsecured exposure?

Nirmal Jain: So, I think Venkatesh spoke about around 3% to 4% of LLP this year, which is I think, in the first two quarters we have done the provisioning of 300 crores already in microfinance and the book is around 12,400 crores. In terms of the current expectation is another 200 crores in the next two quarters broadly, so 500 crores we are talking about. Home loan to repay unsecured loan, we have not seen that kind of tendency, I mean, if somebody is doing and not disclosing is a different thing because that's not something that we will normally capture as the stated end use. But my gut feels from talking to people is there may be exceptional, but that is not the trend.

Shubhranshu Mishra: What has been the write-off in microfinance in the first two quarters and what is the write-off we are expecting in the next two to three quarters?

Nirmal Jain: So, I think the write-offs and loan loss positions put together will be one this thing. I think two quarters we have taken the total loan losses and provisions to 300 crores and right now writeoff is 200-odd crores and over and above 100 crores is the provisioning.

Shubhranshu Mishra: What is the write-off we are expecting in the next two quarters or three quarters?

Venkatesh N: We are trying to minimize things. I mean if you look at in the last quarter, we were able to figure out what it could scale up to. Now, we have a collection mechanism where we will be working on. Even they will be a lot of pullback in terms of the 90-plus and the provisions we have made and even the write-offs we have taken. So, we don't expect it to go practically above from what we have already done in the first two quarters.

Nirmal Jain: Incrementally I think if you see 4% as a loan loss provision. Write-off/ provisions put together can be another 200 crores in the next two quarters based on the current estimate, but it's very difficult to make a forward-looking statement in this how the industry evolves on, one has to watch.

Moderator: Next question is from Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

V Ramakrishnan: It's a continuing question with other questions. So, let me start with microfinance. Venkatesh, in microfinance. when you say this stability, the par-zerogoing to par- 30, par- 30 going higher. Has the flow stopped, has the moment of flows been improving over the last few quarters, do you see any improvement from that? Another way of asking the question is whatever is there, you are going to be writing it off, but the new flow is not going to be that significant.

Venkatesh N: Vivek if you look at the flows have actually not completely stopped. I mean, if you look at Q2 was the worst quarter I mean we have gone through. What I mentioned earlier was given that we have the October month where we have a lot of holidays we are seeing slight stabilization in terms of the flow. Post all the festivals getting done, so that's when the stability of the sector would be seen. So, we are seeing post somewhere around November 15 kind of a thing where the stability we will be able to see. As of now, the collection efficiency were slightly improved from what we saw in the month of September.

V Ramakrishnan: The second question is on the digital loan or the unsecured SME loan. Nirmal, you mentioned about credit loss guarantees which are there. How much does it cover in the sense that what is the typical SME loan loss in your unsecured portfolio that you are estimating and then what will be the overlay of insurance that we will reduce it to going forward?

Nirmal Jain: So, Vivek, it's quite a complicated scheme, but I will try and briefly explain it to you. So, there are two schemes, one about Rs.10 lakh and one less than Rs.10 lakh. So, above Rs.10 lakh, they cover only twice the premium, so 1% is the premium, so the maximum they can cover is 2%. So, broadly, 1% of losses can be covered by that scheme above Rs.10 lakhs. You get it? Less than Rs.10 lakhs, what they do is you can cover 15% of your portfolio, in which 3% of losses will be borne by the originator like us by the Company, and out of the remaining losses, 75% is given by the insurance. So, to put numbers in perspective, if you are 1,000 crores of your portfolio, you can cover maximum 150. So, that is good enough because normally one wouldn't expect more than 15% of losses. And out of that, 3%, which is about 4.5 is borne by you. And say out of the remaining losses, 75%, they will pay you. So, roughly 109 crores can come from them if you have a 1,000-crore portfolio and your losses are maximum up to say 15%. But this is how the numbers work. I mean you got it, for the less than Rs.10 lakhs loan. Premium is around 90 basis points to 100 basis points, that's what we are looking. So, in summary above Rs.10 lakhs, you should try and restrict your losses to 2% and they're also like a 1% premium, 1% subsidy. In less than Rs.10 lakhs it can be significantly better, but of course 75% they'll bear, 25% still you have to bear, and 25% over and above first 3% of losses.

Moderator: Next question is from Yash Dantewadia from Dante Equity Capital. Please go ahead.

Yash Dantewadia: So, wanted to know now on the gold loan side going forward, since we have a lot of capital, right, and we have raised capital to rights issue, etc., what I want to understand is, are we going to focus on gold loan itself or we are going to focus on co-lending because right now we have no reward to focus on co-lending because we have surplus capital and we want to get profitability and co-lending is not very profitable, right, and can you put some light on that whole area, how you are going to go forward?

Nirmal Jain: So, right now our capital adequacy is good, but in three to six months as we get back to the earlier level, it will get back to those again the older level. So, as a strategy, nothing changes because we continue to focus on both co-lending as well as our own loan book in a ratio of 60:40 that we had historically for the entire portfolio.

Yash Dantewadia: We should be focusing on gold loans itself, right, why co-lend?

Nirmal Jain: Why co-lend – it's for liquidity and the use of capital, then that allows you to go without damaging capital. So, at this point in time, what we are saying, right, that this quarter, next quarter we can see that we can grow on our own book. But we want our capital adequacy also to be 15% minimum requirement but we want to be to be around 20% or more just as the marginal safety and that is where co-lending helps.

Yash Dantewadia: See, the reason I raised this point is your microfinance is clearly slowing down, and I don't see microfinance recovering for the next six to eight months. So, definitely on the microfinancing you are not going to be able to increase the book size. Home loan size that is going to go at a steady rate of 15% to 20% from what I am able to see. Now, since the microfinance part is not growing and you do want to grow your unsecured book, you are obviously going to focus on growing your secured book, which is the gold finance book at a much higher rate. So, you don't need to co-lend at least for the 6-7 months, right, you are completely right, I get the point on the capital side, but co-lending is not very profitable. So, anyways, that was just one point that I wanted to –

Nirmal Jain: So, what you are saying is right that now I think the focus is more on the secured where gold loan as well as LAP which is also a secured product as a part of business loan. Co-lending is a long-term strategy because see what happens is what it allows you to leverage. So, even with a reasonable ROA, your ROA can be significantly higher. But for the time being, maybe like we have to see for next one or two quarters and then you look at the strategy.

Yash Dantewadia: You are completely right. Co-lending works. You've been doing at 30%, 35% in the CAGR in the gold loan space.

Nirmal Jain: Absolutely right. Again, it's a phase of growth. For the time being we will watch the next one or two quarters and then re-work on the strategy.

Yash Dantewadia: So, I was just saying, at least for the first six months, I think you can focus on gold loan and take it into your loan books and then maybe focus on co-lending ending as and when the old book is built back up. That is one thing I wanted to point out because clearly unsecured space is kind of wobbly for the next 6 to 9 months I see it till the whole micro finance cycle plays out? That was point #1. Now can you talk more about our focus on the MSME portion, how are we planning, are we planning to grow that at a significant pace as secured MSME I am talking about, how are we focusing on that whole segment? And also on the housing loan front, there have been talks about an IPO for value unlocking. I think in the last interview that I watched, we said something about two years sort of timeline. So, could you throw some light on that too?

Nirmal Jain: MSME, because we have a very large distribution network and as we roll out a product, on a small base growth can be good. But this is something which is because we got a 2,700 branches for gold loan. And if you add up all our branches, then we have more than 4,000 branches, including microfinance and other products. So, the loan against property is a product which our branches can do. And in the six and a half months of embargo on gold loan, we were training our people to do the unsecured as well as secured business. Although unsecured business loan obviously evokes negative emotion about risk and quality of asset. But as I said that this is something which is a priority sector lending, which is what the government is also pushing banks to achieve the target, because that's for the economic growth. Just to give you perspective that despite so much of push on MSME, in India, MSME contributes 30% of GDP, in China and South Korea where the countries have grown very rapidly in the last two to three decades, it's 50 to 60% of the economy. So, MSME has a long way to go and the only way MSME can grow is by availability of credit and the distribution of credit and the 8.5 million MSME. So, the number is so large, enormous that the banking system alone cannot achieve this target or objective or mission. So, we will work in partnership and that's why the government is supporting by way of insurance schemes or by way of targets of digital lending. What we have to do is that we have to partner with the banks and make sure that we do what we are good at and then the bank basically also achieve the targets and we make sure that the risk is contained within the price that we charge. So, that is about MSME. Listing is I don't think we will do an IPO, unlikely, I mean I can't say we will not do or do because this will take time, but we have an investor in our housing finance Company and every investor basically need some kind of option to exit or liquidate, but there is no rush or no hurry. But when we do this, whatever we have discussed, the preferred option what we have done for the group is demerger of the businesses, so that without any further dilution or without any change in the economic interest of various shareholders, the companies get separately listed. That has an advantage that you can attract different types of investors because there are some investors who are keen to invest in microfinance who are more oriented towards social goal, there are investors who are very keen on housing finance and then the investors for gold loan or other businesses. But I think that's the process and the process takes time. So, at this point in time nothing has yet been discussed, approved by the board and whenever that happens, obviously we will let everybody know.

Yash Dantewadia: But see after the Bajaj Housing sort of listing, it's very clear that HFC is that is able to grow that book at a 20% sort of run rate and that have stable asset quality, get a very decent price-to-book. I am pretty sure that you have more input than me in this particular thing. So, I hope you do the best for the shareholders.

Nirmal Jain: Yes, we will do it at the right time.

Moderator: Next question is from Anusha Raheja from Dalal & Broacha. Please go ahead.

Anusha Raheja: Firstly, is on the gold loan side. I think could you take through how the walk-ins have been recently versus it was six months prior and the competition has also intensified, what was taken away some of your market share, so in that sense, how do we see growth in this background?

Nirmal Jain: We have a database of customers that were our customers and walk-ins are also there and as you know people get to know that we have resumed business as usual, so, there is a flow of customers. So, we actually have a very healthy trend and our people are really motivated and committed to get back the market share and obviously the profitability and everything depends on that. So, the trend is positive.

Anusha Raheja: And the stage-2 asset of 31 to 90 DPD, there is no significant rise across all the loan segments and the levels are higher than what it was in Q1 as well. So, what is causing such a significant rise?

Nirmal Jain: In gold loan I think we just started almost towards the end of the quarter. So, we wouldn't force customer to liquidate the loan and obviously we are also waiting for it. So, if you see gold loan typically we have small customers, 50,000 - 60,000 loan, they tend to pay towards, just before 90 days to avoid the auction or threat of the liquidation. Then the construction finance is a lumpy business with one of the loan basically not being paid or delayed by more than 30-days despite the number. And I think the other businesses, the trend would be similar if you really look at 31 to 90 days of the last quarter.

Anusha Raheja: If you can just tell us what could be the standard….

Nirmal Jain: There is an increase in the gold loan part of it which is a bit of increase in gold loan. So, there is a marginal, the 6% has inched up to7% on the whole and we are talking about stage 2 31-90 dpd.

Anusha Raheja: And what could be blended credit cost that we can factor in for on the overall consol book for FY'25?

Nirmal Jain: Microfinance has moved up more than we had expected, other businesses is more or less similar. So, what we are talking about is 2%, maybe some 2.5% percent on the whole.

Anusha Raheja: Any number to put up there, including this MFI credit cost on consol book?

Nirmal Jain: We are at 2% of the loan of our steady state business. It's again very different in all segments of the businesses. So, the gold loan is slightly higher, 2.4%, but we expect it to go below 1% as the business has fully rolled out properly and the other trends are more or less low. So, the business loan will remain around 3%. We may bring it down to 2, 2.5% over a period of time.

Anusha Raheja: And if you can just take us through growth in across all segments like you said that in gold loans we would see by March '25 the growth will revive back and MFI likely we will see a consolidation.

Some color on the growth for the home loans and digital loans and LAP loans how do we see that segment growing in FY'25 and in the medium-term?

Monu Ratra: So, we are seeing home finance as a whole, we are expecting about the AUM growth of about 17% to 18% for this year and all the segments would move in the same tandem. We can expect home loan maybe a couple of percentage more about 20% growth in home loan, and the other part of the business should be about 16% to 18%. That's what we expect in the housing finance business.

Nirmal Jain: Other business, I think we already spoken about.

Moderator: Next question is from Mr. Shikhar Mundra from Vivog Commercial Limited. Please go ahead.

Shikhar Mundra: I just wanted more clarity on this exceptional item. So, where were the AIF investments exactly made and what is the reason for them not being liquidated?

Nirmal Jain: AIF investment was made in June '21 and it was to mature on 1st June '24. The circular of RBI came on 19th December, giving 30 days to either liquidate or make 100% provision for the same. We couldn't liquidate in the 30 days. But what happened is that in the month of March, when we got in specie distribution then those debentures that we got in our book were also delinquent because they were also delinquent in the portfolio, most of them, not entirely. So, that thing is what we sold to ARC. And normally for all the delinquent assets, resolution mechanism is through ARC and basically in the ARC normally we also invest in the security receipts. So, the underlying collateral will be the same. What we have tried to be is that we be conservative and follow the regulation not only in the letter but also the spirit, while the effect has changed the form, instead of AIF become security receipt, but underlying collateral is the same. So, we decided to make a full provision of it.

Shikhar Mundra: And when can we expect…

Nirmal Jain: This is one-time exceptional provision that we are making and this does not have any implication in the cash profits or anything. So, this is just a provision.

Shikhar Mundra: Can we expect the write backs from them?

Nirmal Jain: I think maybe two to three years will take to realize all these.

Moderator: Next question is from Kriti Tripathi from NVS Brokerage. Please go ahead.

Kriti Tripathi: In continuation with the AIF question just mentioned, I wanted to know that how much was the amount invested by the Company in the AIF? Apart from that, the initial amount and then now our share of profit and loss, what is the difference between that, so can you explain that?

Nirmal Jain: So, original amount was I think was 900 / 1,000 crores out of which repayment happened, this is 900 crores. And then when we got the in specie distribution we transferred, it was 675, but I think there was a write-down and the ARC took it, ARC do their own valuation, then there is auction bidding process. Actually so what we hold from that AIF was 586.5 crores as of March in NBFC. So, there are lots of transitions in this, but I will give you the broad estimate that when you started close to 900, 1,000, but now it's 586, some payments as well as some write-downs, both put together, yes.

Moderator: Next question is from Kamal Mulchandani from Investec Capital Services. Please go ahead.

Kamal Mulchandani: I had a couple of questions regarding the gold business. Firstly, I wanted to know that have we reduced any interest rate on gold loans recently? Additionally, I wanted to understand how are the recent trends post the lifting of the RBI ban? And if you could just brief upon the strategy around how to scale up the gold business back to where it was as earlier?. I am sorry if I may have missed the strategy related part.

Nirmal Jain: So, we have not resorted to cut throat price competition to get the asset back. So, there are various multiple schemes that you run like suppose you have a 99 paisa or 12% interest where it has to be a monthly interest and there we have slightly lower LTV than in the other schemes. So, initially we expect the traction to be more in the lower yielding products that we have, but we are not resorting to any cut throat price to get the asset back. Secondly, our strategy is very simple to focus on the customers. At this point in time we don't see the need to be very aggressive or go out of way to focus on getting the customers, customers are coming back. And as their loans mature elsewhere, we are seeing good traction of customers getting back to us where they were earlier.

Kamal Mulchandani: Any initial trends which you are seeing like it's a very small period, but how has been the disbursement trends in October?

Nirmal Jain: It's very good, very positive. So, in about a month just when we started, obviously, it's take time to get back to the momentum. So, our loan book, which was 10,000, has gone up to 12,000.

Moderator: Next question is from Raghav Garg from Ambit Capital. Please go ahead.

Raghav Garg: Just one very small question. In standalone business, is there any overlap between the digital loan customers and the gold loan customers?

Nirmal Jain: Very minimal. I would say maybe less than 1%.

Raghav Garg: Another question is, so when I look at Slide #12, right, which has stage wise updates, there the digital loan assets is about 6,500 crores on Slide #12, whereas on Slide #18, the digital loan AUM is about 5,400 crores. So, where is this difference, in which entity? I am just trying to reconcile these two numbers.

Nirmal Jain: There are some loans which is sourced by Samasta Microfinance, and they are booked in the parent Company. So, that is the difference. So, the way the individual loans which are booked through Samasta for micro-LAP, that is where I think there will be a reconciliation which I will tell you where. So, if you go to Slide #35 I think it's home equity, which is LAP secured, which is originated by Samasta but booked in NBFC. Maybe from the next presentation we will make it little more clear in terms of how we classify and show the assets.

Moderator: Next question is from Rishikesh from RoboCap. Please go ahead.

Rishikesh: Firstly,on gold loan. So, if I see in peak, we were around 20,000, 23,000 crores of loan growth. Do we have any internal targets to get there again and by when?

Nirmal Jain: No, we don't have any target as such, but as the business grows will get there in some time, it won't take too long.

Rishikesh: And how do you see the growth in our LAP book going ahead?

Nirmal Jain: So, LAP book had two components, one was the old LAP book which was the larger ticket size. So, that basically is tapering off. So, when you see the overall LAP book, there is only 1% growth, but the normal LAP book that we are continuing which is the smaller ticket size is growing healthily. I think Monu said that about 17% to 18% is the trend there.

Rishikesh: So, are we expecting this to grow by 17%, 18% going ahead?

Nirmal Jain: The overall reported LAP has the older LAP book, which is a larger ticket which we have discontinued. So, what growth you see here will be not so much, but maybe slightly little lower.

Rishikesh: And just to come again on gold loan, what growth that are we expecting going ahead?

Nirmal Jain: I think again, maybe everybody is very curious about this. Unfortunately, I am not in a position to give any forward-looking guidance on this. The only thing is that we will continue to grow at a steady pace as our customers come back, and because we have a distribution network and base of customers, we do not think that it will take too long to get back to what our loan assets were before the ban, but still I can't put a finger and say this is the timeframe. What we have told is that we want to make sure that customers are serviced well, no compromise in terms of compliance and on the risk management and at whatever pace we can grow the business that should be a healthy growth, that is more important for us.

Moderator: Next question is from Shweta D from Elara. Please go ahead.

Shweta D: You actually partially answered my question, but nonetheless, so in light of regulatory forbearance and RBI calling out on interest rates, so do we see repricing of our assets on microfinance side on the lower side? And alternatively, I think you answered this. On the gold loan side, are we going to stick to competitive rates because we have seen a slight drop in your yield? So, in the quest of growing the gold loan book, we are looking at keeping the rates competitive on the gold loan front.

Nirmal Jain: So, on the first point of interest rate, if you see slide 40, then we have implemented the risk-based pricing and that is what actually even RBI is looking at and we did not have any predatory pricing in any of our businesses. So, those 35%, 40%, 45% rate are not for any of our businesses. So, we are very conscious about it. And also we have now a board approved policy for interest rate cap. So, that is about the higher interest rate side. Then your second part of the question is on the lower interest rate to be competitive. As I've said that the customer when they come back, the early customers or the flow will be in the lower price scheme, but there the requirements like the LTV are more conservative and there is a monthly-interest payment. So, the yield may fall a little bit, but as I said that we are not getting into any cutthroat competition, so there won't be a dramatic impact, but yes, marginal tapering off will be there in this quarter, next quarter for sure.

Shweta D: Sir, just coming back to the MFI side, so I didn't imply you said it's rate or something which you are not confirming with the RBI norms, all I meant was are we looking at recalibration in interest rates further on our MFI?

Venkatesh N: As Nirmal pointed out, the risk-based pricing is already introduced, so this is with the guidance with what RBI asked us to do. So, that's already in force as we speak.

Moderator: The next question is from Navneet Baya, who's an individual investor. Please go ahead.

Navneet Baya: Hi sir, I wanted some clarity on your security receipts portfolio. So, in your slide 23, you've mentioned that your outstanding security receipts are about 3,600 crores against which you have a provision of 612 crores. So, the 3,000 remaining is that also at risk, why aren't we providing against those?

Nirmal Jain: So, security receipt accounting is done based on the accounting principle and then there is a fair value, and based on that, you have to make sure that they are valued. So, this is an exceptional thing just to make sure that RBI's circular is complied with in letter and spirit. But the other security receipts are good and in terms of their expectations, on the whole, our portfolio, we expect it to recover fully, and we don't see any need to basically provide for it, but on slide 23, we have given more color on the portfolio of security receipt. But we make sure that for any risk or for any expectation of the loss, we provide for, but we don't expect any loss in the portfolio.

Navneet Baya: Of the 3,600 crores, you've provided for 586 crores. So, we are saying that the remaining 3,000 crores, we are not expecting any credit costs also to occur in our P&L?

Nirmal Jain: 3,600 crores portfolio that you have, I think that we will recover fully along with some interest or whatever which should accrue to the ultimate borrower. That is what our expectation would be.

Navneet Baya: So, no further charges is what we expect on the P&L. Do I understand that correctly?

Nirmal Jain: Yes, you are right.

Moderator: That was the last question in the queue. I would now like to hand the conference back to Mr. Kapish Jain for any closing comments.

Kapish Jain: Thanks a lot, ladies, and gentlemen for joining our Q2 earnings call. For any further query, we are available. You can write to us at our investor relations e-mail ID or reach out to us separately and we will be more than happy to clarify things anything further from the results.

Nirmal Jain: Thank you so much. Have a good day ahead.

Moderator: On behalf of IIFL Finance, that concludes the conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.