November 17, 2023

| To,<br>The General Manager<br>Department of Corporate Services<br>BSE Limited<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street, Mumbai – 400 001.<br><br>**Scrip code: 540268** | To,<br>The Manager<br>Department of Corporate Compliance<br>National Stock Exchange of India Limited<br>Exchange Plaza, Bandra Kurla Complex,<br>Bandra (East), Mumbai – 400 051.<br><br>**Scrip code: TRU** |
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**Subject: Transcript of the Earnings Call**

Dear Sir/Madam,

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended and in furtherance to our letter(s) dated November 03, 2023, November 09, 2023 and November 10, 2023, we have enclosed herewith the transcript of the Earnings Call held on November 10, 2023, at 11:00 a.m. (IST).

We request you to take the same on record.

Thanking You,

Yours faithfully,
**For TruCap Finance Limited**

Sonal Sharma
Digitally signed by Sonal Sharma
Date: 2023.11.17 16:00:32 +05'30'

**Sonal Sharma**
**Company Secretary & Compliance Officer**
Encl: As above

TruCap Finance Limited
Q2 FY24 Earnings Conference Call
November 10, 2023

**Moderator:** Ladies and gentlemen, good day and welcome to the TruCap Finance Limited Q2 FY24 Conference Call.

As a reminder, all participant lines will be in a 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 "*" followed by "0" on your touch tone phone. Please note that this conference is being recorded.

At this time, I hand the conference over to Ms. Purvangi Jain from Valorem Advisors. Thank you and over to you, Ma'am.

**Ms. Purvangi Jain:** Good Morning, everyone and a very warm welcome to you all. My name is Purvangi Jain from Valorem Advisors. We represent the Investor relations of TruCap Finance Limited.

On behalf of the Company, I would like to thank you all for participating in the Company's earnings call for the 2nd Quarter and the first half of the Financial Year 2024.

Before we begin, a quick cautionary statement: Some of the statements made in today's concall maybe forward looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by, and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

Now I would like to introduce you to the management participating with us in today's earnings call and hand it over to them for their opening remarks. We have with us, Mr. Rohanjeet Singh Juneja – Managing Director and Chief Executive Officer, we also have Mr. Sanjay Kukreja – Chief Financial Officer, Mr. Sumeet Khanna – Head of Digital Credit Product, Mr. Gaurav Bhargava – Head of Gold and Branch Business.

Without any further delay I request Mr. Rohanjeet Singh Juneja to start with the opening remarks on the financial highlights. Thank you.

**Mr. Rohanjeet Singh Juneja:** Thank you, Purvangi. Welcome to our Earnings Call today. Before we get into the Earnings Comments and our Strategy going forward, I am very pleased to tell you that TruCap's Board has approved an equity infusion of Rs. 1.68 billion in a combination of warrants and compulsory convertible debentures to Zeal Global Opportunities Fund and Nova Global Opportunities Fund along with a few existing investors of the Company. This equity infusion will bolster our net worth to over Rs. 4 billion and bring down our leverage to 1.2x from an already low 2x. This will enable continued robust growth in AUM, especially with our existing and potentially new co-lending partners, which should hopefully enhance earnings growth in a faster and swifter manner.

Now coming to our quarterly earnings results:

In the 2nd Fiscal Quarter of 2024, we reported 60% quarter-on-quarter growth in pre-tax profits to Rs. 27 million, driven by robust growth in disbursements of 2.95 billion, up from 2.68 billion in the previous quarter and 1.55 billion a year ago.

For the first six months of the year, disbursements have been 5.62 billion, up from 3.19 billion a year ago, representing increasing scale and volume growth, driven by expansion of our distribution network coupled with the addition of co-lending partners.

To illustrate on both these important points further related to capital allocation and distribution.:

1. On capital allocation, we have expanded lending-as-a-service partnerships from one lender a year ago to five lenders today, which include HDFC Bank, DCB Bank, Shivalik Small Finance Bank, UGRO Capital and Central Bank of India. This addition of partners has enabled us to disburse 5.62 billion in the first six months of the year, of which these partners have contributed approximately 3 billion. That means 2.62 billion of disbursements has happened through our own resources, for which we have raised net debt of only 0.33 billion. This goes to show that with 0.33 billion of net debt raised in the first half of Fiscal'24, we were able to grow disbursements by 5.62 billion and our AUM by 1.9 billion, which essentially is the difference of 7.7 billion at the end of September minus the AUM on March 31st of 5.81 billion. The benefits of this accretion should start reflecting in numbers in the back half of this fiscal and more so in Fiscal'25. Lastly, due to this strategy adopted on capital efficiency from August 2021, our leverage continues to remain low at 2x versus 1.9x in the previous quarter.

2. Secondly, on distribution, with the expansion of lending-as-a-service partnerships TruCap will need to cater to a larger volume of disbursements which explains the branch expansion strategy that we embarked on over 18 months ago. Our distribution footprint has gone up by 63 branches in the last one year to 122 branches at the end of September 2023. The majority of these branch openings have been in Tier-2, Tier-3 and Tier-4 towns, which today represent almost 50% of our branch network. Our footprint today covers Maharashtra, Madhya Pradesh, Gujarat, Rajasthan, Delhi NCR, Goa and Punjab and further branch editions will be in these states only.

Given that the majority of these co-lending partnerships are driven by the MSME Gold loan product, over 76% of our quarterly disbursements were driven by MSME gold loans. Our track record in the gold backed product has been fairly resilient with over 18.5 billion of cumulative disbursements done in the last 3.5 years, with only 53 million being taken into auction where we have recovered more than 109% of principal plus interest and given money back to the customer. Gross NPAs in this product are of meagre 5 basis points. In the collateral free MSME business loan product, we have disbursed 0.72 billion in the quarter, up from 0.55 billion in the previous quarter. Cumulatively, we have disbursed 5.67 billion in MSME business loans with our gross NPAs in that product being 2.8%.

Assets under management at the end of September 2023 was 7.8 billion, up from 6.6 billion in June 2023 and up 72% over the last one year. The product composition of our total on and off-balance sheet AUM today is 65% in gold loans, 34% in MSME business loans and 1% in loan against property and personal loans which are in run off mode.

Active customer count, which was 23,450 in September, 2021 and 57,115 in September, 2022, is up to almost 81,000 customers today.

Gross NPAs were flat quarter-over-quarter at 1.1% versus 2.8% a year ago. This improvement year-over-year has been driven by our relentless focus on resolving legacy LAP and personal loans, which last year contributed to almost 60% of our total gross NPAs. Today, only 11% of our NPAs come from legacy LAP and personal loans which are also in the process of being resolved by the end of this fiscal year.

Collection efficiency in the Gold loan product is well north of 200% due to prepayment, repayment, part closures, etc. While for the business loan product, collection efficiency has ranged from 92% to 95% since September 2022.

On the net interest margin, which came in at 5.5%, still lower than our desired range of 8%. A few things have happened.

One is due to the rate hikes being passed on to us from June 2022 onwards, we have seen margin compression.

Secondly, incremental funding costs that had come down in the June 2023 quarter has been flat since then, which resulted in lack of improvement in the NIM in the September quarter. To improve NIM going forward, the Company is writing more business with lending-as-a-service partners, which gets funded at a fixed hurdle rate to the partner.

Coming on to cost-to-income, which we are looking to improve through productivity and tech enhancements, we disbursed almost 40,200 loans in the September quarter versus 35,000 loans in Fiscal 1Q and 22,600 loans in September, 2022. This means we have an average of close to 442 loans made per working day in this in the previous quarter versus 380 loans in the June, 2023 quarter and 248 loans a year ago. Almost 48% of our branches have broken even and we expect this number to go up to 65% plus in the current fiscal. More than 37% of our branches have an AUM in excess of Rs. 40 million and we are now very keenly focused on substantially improving branch productivity, which is measured in loans per day, per branch, per person and the resulting profitability it brings to the business. As mentioned on the prior call, the pace of increase in adding new branches will be slower for the rest of Fiscal'24 and Opex as a percentage of AUM should decline in the last quarter of this fiscal and in Fiscal '25.

Furthermore, with several other initiatives being undertaken by the Company to substantially enhance business volume through tech enhancement, our cost-to-income should start to see material improvement in Fiscal'25.

In conclusion, we want to wish everyone a very happy Diwali and now open the call for questions and answers. Thank you.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask the question may press "*" and "1" on your touch stone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Krupesh Shah, an individual investor. Please go ahead Sir.

Mr. Krupesh Shah: Hello.

Mr. Rohanjeet Singh Juneja: Yes Mr. Krupesh.

Mr. Krupesh Shah: Hello.

Mr. Rohanjeet Singh Juneja: Yes Sir.

**Mr. Krupesh Shah:** Yeah, Good Morning Sir. Thank you for giving the opportunity. So my question was about just gold loan. So, Gold Loan has increased over 60% of our loan book. So, and also about the co-lending, is it the big part of our book going ahead and why there are lower margins and the growth is low for the Company overall.

**Mr. Rohanjeet Singh Juneja:** So on gold loans, that's 65% of the total AUM, which includes the on plus the off-balance sheet. In terms of co-lending, co-lending today in in terms of writing business, it's gone up to about 39% of total AUM and this number will go up to about between 42% to 45% by March 2025. I don't think growth has slowed down. Growth has actually been fairly resilient. We are being selective about the kind of business that we want to write. So, for example, in the months of September and October, gold traditionally becomes more competitive because of Diwali. In those times and in times when gold prices go up in a fairly robust manner, we get somewhat cautious. We don't want to compete at pricing that is not sustainable for the long run number 1, number 2 in terms of gold prices going up, while that's good for the business, that can be very good for lending as well. We tend to be a little more cautious in those times because any kind of extraordinary shock, which can lead to a swift decline in gold prices will not be good for the business and more importantly, not good for customers. So, we tend to be more cautious on those times due to which September and October have been a little slower than prior months, but that's perfectly fine. In the unsecured business loan category as well, we have made the product much simpler, but at the same time the selection criteria is fairly onerous. So, it's better to write good business maybe at a slightly lower yield than to write more voluminous business at a higher yield, where the risk of delinquencies and the risk of provisioning increases at a later stage.

**Mr. Krupesh Shah:** Okay So, going ahead, what would be the profitability target of the Company?

**Mr. Rohanjeet Singh Juneja:** So, we would not only like to give any formal guidance in terms of profitability. But the idea is to first obviously strive towards getting to a 2% ROA and then further up from there. I think in the last year to year and a half, our profitability has been slightly lower due to the branch expansion that has happened. So, as I mentioned in the opening comments as well, we've added more than 65 branches in the last one year. In fact, 31 of those branches came in the June quarter itself. So, there's a Capex and Opex costs associated with starting those branches. It's also important to remember that when you open the branches, the expense comes first and the revenue comes later, so there's a tail effect that you there will be a catch-up on the revenue and the earnings side as well. These branches are now breaking even in a shorter time frame because of co-lending relationships. So, as more than 48% of our branches are broken even, which we've guided to about 65% would break even by the back half of the year, you should see a good jump in profitability going forward, but we would not like to give a formal guidance on the profit number.

**Mr. Krupesh Shah:** Okay. Sure Sir, and the last question is about recently we have issued warrants over here and we have done multiple rounds for this fund raising. So, what is the reason and where would this be utilized and are we expecting more such fund-raising rounds going ahead?

**Mr. Rohanjeet Singh Juneja:** So, I don't know whether multiple rounds, there's an equity infusion that has been approved by the Board yesterday, which is on a combination of warrants and CCDS, compulsory convertible debentures. So, about just under 60 crores is expected by the end of December with the balance coming in, which is almost about 109 crores, which will come in over the course of the next 18 months. So, this equity infusion is a big boost to our net worth also it will help us expand business substantially and keep leverage very low. So, you know the two choices always in front of management, in front of Board is do you want to increase leverage take it up to 3x to 4x and wait to raise equity at a later stage or do you want to equatize the business further run at lower leverage especially because you're doing a good amount of business with co-lending partners. We chose the latter, where we believe that keeping leverage low is fairly important for an NBFC of our size. Number 2, increasing the net worth will help us expand these co-lending relationships further and potentially new co-lending relationships also because any partner would look at you in terms of how big a Company's net worth is and how safe a Company is to do business with because 80% of the capital that is being contributed by them. In terms of any future fund raises, I mean, we have this fundraise for now that we just announced yesterday. So, anything in the future is something that we would look in the future on which I would not be able to comment right now.

Mr. Krupesh Shah: Okay, got it, thank you so much Sir.

Mr. Rohanjeet Singh Juneja: Thank you.

Moderator: Thank you. Before we take the next question, a reminder to all the participants, if you wish to join the question queue you may please press “*” and “1” on your touch stone telephone. Ladies and gentlemen if you wish to ask a question you may press ”*” and “1” on your touch tone telephone. We take the next question from the line of Pranav, an individual investor. Please go ahead Sir.

Mr. Pranav: Hello. Am I audible?

Moderator: Yes Sir.

Mr. Pranav: Yeah. I had couple of questions. The first one is, there have been recent news talking about contractionary trajectory in the monetary policy, which will lead to build up of risk in NBFC., how do you think this will impact us and the NBFC sector as a whole? So there have been hike in interest rate by RBI how this is going to impact us?

Mr. Rohanjeet Singh Juneja: Yeah, so, hikes in interest rates over the course of the last one year when the RBI raised by 250 basis points has impacted us on the net interest margin primarily and that's why you've seen a contraction from 7.5% to about 5.5% for us, so it has clearly impacted us very directly. We are expecting this impact to dissipate, which means that it should be reduced going forward. So, our net interest margin should improve going forward. The reason for that is because in the previous two policy meetings the RBI has actually not raised rates and we feel that I hopefully that should be the case going forward as well, where there would not be any more further rate hikes, but obviously that depends on the inflation trajectory and depends on a lot of other exogenous factors like the FED, etc. But for us on the NIM a few things are happening. One is on the funding side, hopefully with the equity announcement as well, we're looking to see how we can reduce our cost of funds on the incremental borrowing that we are taking from banks. So, whatever we are borrowing incrementally, hopefully that should come to us at a lower rate relative to what we borrowed in the past Number 1. Number2 is when we are funding more of the business through co-lending partnerships that funding happens at a fixed rate to the partner, so both these together should help in mitigating NIM compression going forward, and it should help us to improve our NIM profile over the course of the next 12 to 18 months.

Mr. Pranav: Understood. So the next question I have is how we compete against our other NBFCs and other peers in the sector because many other peers are also following the similar trends like they are also entering into gold co-lending, etc. So, how do we strategize to compete against them?

Mr. Rohanjeet Singh Juneja: Sure. This is a question that almost everyone asked. Firstly, if there was no competition in this space, then there's something not correct in the space because of which there's no competition. India is a very big market and rightfully so there is competition. What I can't speak for other NBFCs or you know other financial institutions, but for ourselves what we do is we choose the pockets that we really want to compete in. So, for instance, when we decided we wanted to be in the gold backed business loan product, we chose the states that we wanted to be in and very carefully calibrated where in those states we wanted to be in based on the demand for the products. So, the states that we spelt out, which are Maharashtra, Madhya Pradesh, Gujarat, Rajasthan, Punjab, Haryana, Goa, etc., were the states that we chose. We decided not to go down South because it was more competitive than we wanted it to be and, in these states, then we selected where we wanted to have our branches. So, almost 84% of our branches are in Tier-2, Tier-3, Tier-4 town. We feel we have no differentiating factor being in a Tier-1 town, Tier-2, tier 3. Tier-4 is where we think we can compete. What we do have is certain products which may be different from some of the competition, and I would not like to spell out all the details on the products because then we're giving away our competitive edge and how you assist the customer, I think Tier-2, Tier-3, Tier-4 town. Is more about how you assist the customer. Customer service, while it's a very simple word to say is very difficult to execute. So, there has to be a certain differentiation which we feel we've done a decent job in the customer experience given to this customer and how quickly you can provide assistance to the customer as well. You have to also you know ensure there is the gold product, especially this quick disbursement and quick redemption ability as well for the customer. In the business loan product, which is the collateral business loan product, there is a lot of documentation that is required so how you can assist the customer in that and how you can make their life easier so that they can continue with their day-to-day business while they still try to take a loan I think that is the most important differentiating factor for us.

**Mr. Pranav:** Understood. That was all from my side. Thank You.

**Mr. Rohanjeet Singh Juneja:** Thank you.

**Moderator:** Thank you, Sir. A reminder to all the participants, anyone who wishes to ask questions any press "*"and "1" on their touchstone telephone. Ladies and gentlemen if you wish to ask a question you may press "*" and "1" on your touch stone telephone. The next question is from the line of Ankur Gulati, an individual investor. Please. Go ahead, Sir.

**Mr. Ankur Gulati:** Hi Rohan. two questions, one is why the effective tax rate is (+40%) this quarter.

**Mr. Rohanjeet Singh Juneja:** So, the tax rate keeps moving around from quarter-to-quarter. It's a very complicated issue, but what happens with us is, in finance cost, there's roughly about a 1.7 to 2 crores expense every quarter for us, which is a non-cash expense due to the corporate guarantee that is given by the hold Co, Wilson Holdings to our lenders. Now because of this, there's a difference between the cash tax paid and the actual tax that has to be paid and that's the reason why the tax rate moves from quarter-to-quarter. I think it will be fair to say that on a yearly basis it will be between 25% to 30% and one should look at it that way.

**Mr. Ankur Gulati:** Second question, just help us understand in the LAAS portfolio, if you're getting a gross yield of hypothetically 20% from the borrower, how is that split between TruCap and the co-lender in your P&L, does the 20% entirely come to your interest income and then you pay out something to co-lender or how does it work from accounting perspective?

**Mr. Rohanjeet Singh Juneja:** We use the number of 20% or 20% is a high number to the borrower overall for the entire LAAS portfolio, because the idea behind co-lending is to assist the borrower and being able to give them loans that are fairly reasonable rate as well so that was the concept behind co-lending in the 1st place. But assuming it's 20% just to stay with that number there is a fixed hurdle rate that is provided to the LAAS partner. So, beyond the fixed hurdle rate, whatever that rate may be, if the 20% is the rate you're charging the customer, the difference between the hurdle rate and the 20% on their 80% is what we keep for all the services that are provided, which is basically sourcing the customer, servicing the customer and collecting on the customer as well. So, and this is a mammoth effort, right from sourcing to collection. So, that's why there's that fixed hurdle that is provided to the LAAS partner while we keep the balance and on our 20% capital contribution, we keep the entire yield. There is a split between interest income and non-interest income because there's also a processing fee and there are certain other charges that get split accordingly so that's the answer to your question. Also, on the BC relationship so with Shivalik Small Finance Bank for instance, the BC partnership where they fund 100% on their books, we do the sourcing, servicing and collection. There all of it gets booked in non-interest income.

Mr. Ankur Gulati: So, out of 20%, if hurdle is 15% on 80%, 15 goes to co-lender. Correct? And that doesn't form part of your interest income.

Mr. Rohanjeet Singh Juneja: Correct.

Mr. Ankur Gulati: And 5% on their 80 is part of your interest income or other income?

Mr. Rohanjeet Singh Juneja: No, that is part of our other income, but there's PF and there are other charges, for example, whether it's penal, whether there's insurance income, etc., all of that will go into non-interest.

Mr. Ankur Gulati: Understood, and any updates on credit rating now or timelines for credit rating upgrade post the fund raising?

Mr. Rohanjeet Singh Juneja: So, I mean, we are BBB+ rated with Infomerics, we have a BBB with CARE. We are hoping the rating agencies take cognizance of not just the fact that we have grown the loan book in a very risk mitigated manner and taken it up from March 2020 when it was 36.7 crores to over 800 crores today and the split of the book has become a lot safer where gross NPA has gone down from almost 5% at that time to about 1.1%. We're hoping the rating agencies take cognizance of the fact and look to see what they can do with our rating. I can't give you specifics on timing. Obviously, that is up to the rating agencies, but hopefully with new equity coming in as well, our debt-to-equity going down from 2x to 1.2x that should have a positive impact hopefully.

Mr. Ankur Gulati: Okay. So, for this quarter, your interest expenses 182 million if I take it as average of last two quarters' borrowing it comes to 16.4 annualized. Out of which you're saying 18 crores, 1.7 is to promoter. If I knock that off, your borrowing cost is still 15%. So this 15%, is that a fair number?

Mr. Rohanjeet Singh Juneja: No, that is not a fair like I mentioned to you there is that non-cash expense, right, which moves around from quarter-to-quarter depending on the amount of debt that you raised in the quarter. Incrementally we raised money at 12.4% in the second quarter, it was slightly lower in the first quarter which is closer to about 11.9% in the first quarter and I mentioned that in my remarks as well that the sharp decline that we saw in the first quarter was not replicated in the second quarter. Second quarter it was actually up a little bit and that is I think the rate environment globally and not just in India. So, incrementally 12.4%, our total cost of funds today are about 12.9%, which has gone up from 11.9% 12 months ago. And the reason for that is the rate hikes got passed on to us. Our endeavor is to bring this down by about 100 to 150 basis points over the course of the next 18 months.

Mr. Ankur Gulati: Rohan just so as you said 12.9% on current borrowing of I think 470.

Mr. Rohanjeet Singh Juneja: I will be very happy to take that with you offline, Ankur. We can run you through the whole math line by line, no problem at all. I think it'll be more appropriate if we take that offline.

**Mr. Ankur Gulati:** Credit rating or if there is an upgrade to 100 plus basis.

**Mr. Rohanjeet Singh Juneja:** Whatever happens, if you have a credit rating, whenever that does happen, that again is dependent entirely on the rating agencies, how they look at, how safe of an entity we are now going forward given the fact that our net-worth should be closer to about 400 crores and we've done 4 rounds of equity infusion now with this one over the last four years. Incrementally, the funding cost will go down. It's not that it will go down on the entire back book, but incremental funding costs should go down. The difference between a BBB+ and a BBB rated entity for example. The difference would be close to about 100 to 120 basis points on incremental funding. Obviously, if you go into the A minus rating whenever that does happen over a period of time, then the difference becomes much larger because a lot more banks can fund you much larger amounts once you break into the A family.

**Mr. Ankur Gulati:** Okay. Fine. All right Thanks.

**Mr. Rohanjeet Singh Juneja:** Thank you Ankur.

**Moderator:** Thank you, Sir. Ladies and gentlemen if you wish to ask a question you may press "*" and "1" on your touch stone telephone. Participants if you wish to join the question queue you may press "*" and "1". As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Mr. Rohanjeet Singh Juneja:** Thank you everyone for joining the call. I wish everyone a very Happy and Prosperous Dhanteras and Happy Diwali. Look forward to talking to you all on the next call. Thank you very much.

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

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