Dhanvarsha

June 6, 2022

To,
The General Manager,
Department of Corporate Services,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001.

Scrip Code: 540268

Subject: Transcript of the Earnings Call

Dear Sir/Madam,

In furtherance to our letters dated May 27, 2022 and June 1, 2022, please find attached herewith the Transcript of the Earnings Call held on Tuesday, May 31, 2022, at 5:00 p.m. IST.

We request you to take the same on record.

Thanking You,

Yours faithfully,
For Dhanvarsha Finvest Limited

Lalit Chendvankar
Company Secretary & Compliance Officer

DHANVARSHA FINVEST LIMITED

Encl.: as above

Dhanvarsha Finvest Limited
Q4 and FY22 Earnings Conference Call
May 31, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY22 earnings conference call of Dhanvarsha Finvest 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 '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Anuj Sonpal of Valorem Advisers, please go ahead.

Anuj Sonpal:** Thank you, good evening, everyone and a very warm welcome to all my name is Anuj Sonpal from Valorem Advisors, we have presented the investor relations of Dhanvarsha Finest Limited. On behalf of the company, I would like to thank you all for participating in the earnings conference call for the 4th quarter and financial year ended 2022 of the company. Before we begin, I would like to mention a short cautioning statement, some of the statements made in todays, Conall 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 an information currently available to management or the cautions not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is probably to educate and bring awareness about the company's fundamental business and financial quarter under review. Now, let me introduce you to the management participating with us in today's earnings call and then hand it over to them for opening the remark. We have with us Mr. Rohanjeet Juneja – Managing Director and Chief Executive Officer, Mr. Karan Desai whole time Director and Chief Business Officer and Mr. Sanjay Kukreja – Chief Financial Officer. Now, without any further delay I request Mr. Rohanjeet Juneja to start with his opening remarks, thank you and over to you, sir

Rohanjeet Juneja: Thank you Anuj. Welcome to our fiscal 2022 earnings call. We are pleased to announce strong pre-tax earnings of 32.6 million for the quarter and a 106.7 million for the full year fiscal 2022. This translates to earnings growth of 976% year over year with a 3.6% ROA. Disbursements were 4.2 billion for the year up from 870 million a year ago led by MSME, Gold and business loans backed by our first loss default guarantee. With substantially higher disbursements revenues were up 187% year over year to 701 million up from 244 million in the previous year. This was led by very strong interest income growth up 272% year over year to 455 million from a 122 million in fiscal 2021. While our loan book has risen by almost 3x over the last 1year to 3.06 billion. More importantly, the customer count has increased by almost 6x to 33,427 customers. Today, that number is up to almost 42,000 borrowers. The product composition of our loan book today is 49% in MSME business loans, 40% in gold loans, 6% in loans against property which is in one of mode and 5% in personal loans.

Going forward, the focus of the company will be an MSME business and gold loans driven by strong tech distribution and lending as a service for large financials, which is tremendously profitable and capital efficient for Dhanvarsha's balance sheet.

On the last call, we spelt out 3 large strategic initiatives that the company is pursuing with increasing vigor as we move towards our target of acquiring over a million customers over the next 3 years. The first one being lending as a service, which today is more than 4% of total AUM up from zero in fiscal 2021. Lending as a service is where the large lenders is the majority capital provider while Dhanvarsha is a minority capital provider of between 5% to 20%, while we do the entire sourcing servicing and collections on those loans, it's a higher IIR product and a lot more capital efficient. Going forward, we expect lending as a service to the almost 10% of AUM, if not more in this coming year itself. This will be led by expansion of our relationship with Central Bank of India, which until March 2022 was confined to the state of Madhya Pradesh, recently, this partnership has been extended to Maharashtra and Delhi NCR with almost all of our 48 branches. This is extremely pertinent in today's times, given a rising rate environment and the fact that capital may likely become harder to source for almost all entities. Enhanced volume in lending as a service with larger lenders should lead to name expansion, given the capital efficiency of the product. In that context, we are particularly pleased that the company has also successfully completed the infusion of Rs. 340 million in early May led by Aviator emerging market funds along with the promoter group and key management. We will be getting an additional infusion of Rs. 280 million for conversion of warrens into equity shares over the next one year with the combined infusion, our network will be about Rs. 2.4 billion with a debt to equity or 1.2x and capital adequacy of close to 60% providing substantial headroom for growth.

On our cost of debt refinancing of almost Rs. 735 million almost 26% of our total debt outstanding today over the next 18 months combined with our recent equity raise should hopefully lead to a reduction and funding cost despite a higher rate environment. Furthermore, conversion of CCDs into equity shares in October 2022 will also lead to a reduction in interest expense of almost Rs. 310 million in this fiscal year itself.

Now on the second large strategic objective that we discussed, which is the substantial scale up in digital master, this we believe will be a game changer for us in the MSME space, where we expect substantial customer acquisition and data intelligence in future periods. In the last year, we have deployed a fully integrated loan origination and management system "Finflux". This newly integrated LOMS has customizable workflows for different products and has an open architecture for any third-party API integrations. The LOMS also has an automated credit decisioning mechanism which runs multiple business rule engines simultaneously to provide final eligibility for the borrower. This has helped us move from a subjective to an objective approach in underwriting with a final over lay of human assessment. Finflux with the help of Dhansetu which is our B2B channel partner platform has a mechanism of pre-qualification that ensures junk leads are weeded out of the system at an initials page, thereby enhancing productivity and turnaround time. System based offers, pricing grades, delegation of authority and deviation metrics are in build for smooth and accurate decisioning. Finflux is helping us achieve complete digitization of document collection including KYC, e-remains and e-nach. It also helps us leverage various digital platforms and partnerships to enhance Dhanvarsha's product positioning, so we can process substantially higher volumes increase productivity materially, and reduce overall turnaround time for the barrower with this fully integrated LOMS along with the fact that we have a sizeable count of customers that have been underwritten over the last 4 years. The idea is to create a framework that helps us learn from my existing as well as past portfolio performance to inculcate those learnings and products offered to onboard new customers. The objective is to create customized policies depending upon the strengths of the applying customer cohort, rather than a unified treatment for all segments. This project involves identifying critical credit parameters, running performance on those critical parameters, and then planting those learnings to develop a credit risk score, which will be unique for every new customer cohort segment. The system generated risk score for cohorts will defined the eligibility as well as commercials to be offered to them. The risk score will be revise at the end of every month, depending on the latest performance of portfolio across the critical parameters and will apply to all customers onboarded in the subsequent month. It will be a dynamic system that will give us a robust early warning signal. That's helping us to add a layer of learn between lend and collect. In the last quarter.

We also launched our digital asset money rabbit, which has so far seen over 250,000 downloads. As you know money rabbit is not just a micro lending app, but an Omni channel embedded finance platform, providing credit health and financial wellness for MSME and blue-collar workers along with the ability to borrow, take, invest and save all from one app. We have taken a proactive approach and lend an extremely modest amount from money rabbit so far since there was a report by the working group constituted by RBI a few months ago to study the current market scenarios in the field of digital lending. The group has proposed some potential measures that RBI can implement to appropriately regulate this field. We are awaiting final guidelines from RBI before we start to actively lend on the money rabbit platform.

As you can recall, in the initial phase our plan in money rabbit was to do the majority of lending through a B2B2C approach with large partners and anchors to minimize risk and cost of customer acquisition. While Dhanvarsha will be the initial sponsor lending on the money rabbit platform. The idea is to open money rabbit into a marketplace where many other sponsors can lend based on their risk appetite. Now, on to the 3rd large strategic objective on risk, growths NPAs was 3.02% in the quarter versus 4.25% a year ago. It is noteworthy that in our gross NPA pool of 3.02%, 55% of those NPAs come from 9 lakh loans that were originated from September, 2017 until September, 2018. This LAP pool today is down to 6% of the total portfolio balance of Rs. 3.06 billion of these 9 lakh loans in NPA bucket, we have reached to a resolution on three of these loans and confident of closing another 3 LAP NPA accounts for total of 6 of these 9 NPA accounts or between 65% to 75% of LAP NPAs to be closed by March, 2023. If we exclude these LAP loans from the NPA mix grows NPAs would have been 1.35% versus the actual 3.02% reported number.

In recent quarters, we have also introduced several additional risks governance and policy measures to further monitor credit risks at the entity level covering credit, liquidity, solvency information security and financial risks. Rigorous reviews of infant and non-starter portfolio, including revised allocation of such infant cases to sales and credit, as opposed to earlier, only with the collections team. These reviews have resulted in approximately 90 plus percent resolution in the previous quarter.

In terms of audit controls with an objective to assess branch performance and internal controls, the audit team has designed and implemented a brand charter and branch score card which is a measuring, scoring and rating mechanism to give regular feedback to the field sales team on branch operations and functioning. This scorecard includes various risk and performance indicators against which branch performance and adherence towards RBI, regulatory and company policies and processes I evaluated, it also examined the effectiveness and efficiency of internal controls. Essentially this is a system that can provide reasonable assurance regarding branch level risk management. Lastly, the risk team along with management, also monitors business unit and branch level profitability on a monthly basis for efficient capital allocation. With that we will open the floor for your questions.

Moderator: The first question is from the line of Devarsh Mehta an individual investor. Please go ahead.

Devarsh Mehta: Hi, good evening. Congratulations to the management on a great set of numbers. We have seen a very good growth this year. So, what is your expectation on disbursement growth and FY20 considering the rising in just rate scenario?

Rohanjeet Juneja: So, we would not like to give any formal guidance on disbursements, but the first two months of the year have started well for us. Going forward, we expect to write good amount of volume in the lending as a service product, which is the co-lending relationship that we have with the Central Bank of India, which is 80-20 relationship. So, we have seen good growth over the last three years. We expect that to continue, but do not want to give the formal number on disbursement guidance.

Devarsh Mehta: Fair enough. So, my second question would be on could you comment on the quality of loan book considering this growth in your loan book? Is there a high chance of default in the coming quarters?

Rohanjeet Juneja: So interestingly, if you look at our growth over the last 2 years on an incremental basis, 79% of disbursements of the growth that we have seen from fiscal 20 March onwards has been in the gold loan and MSME business product, that is guaranteed by our first loss guarantee from our preferred sourcing partners. So, the quality on that book has been very good to reiterate again, if you look at our NPA bucket as well, of the 3.02%, roughly 55% come from just 9 loans that were legacy LAP loans written in our 1st year of business until September, 2018 post, which IL&FS has happened. We have reached resolution on a good amount of those loans as well and the incremental performance on the loan book from March, 2020 has actually been spectacular.

Devarsh Mehta: So, the last quarter we saw an increase in interest income and fee income was less than 3rd quarter. Can you please explain the reason behind it?

Rohanjeet Juneja: Interest income has been growing as look as obviously we will be disbursing more and more on a monthly basis as disbursement volume picks up for us. So, that is but natural that interest income will pick up which we expect will continue in going forward quarters as well. Fee income came down because now we are syndicating less and less business to other financials as we are underwriting more on our own balance sheet.

Devarsh Mehta: My final question would be on the gold loan side. Which are the states that are contributing highest to our books currently and what is the competitive environment in these areas again the biggies in the sector?

Rohanjeet Juneja: So, the state we are present in Maharashtra, the Delhi NCR\Haryana region and in Madhya Pradesh at this point in time, in order of largest contribution, it is Maharashtra, Delhi NCR and then Madhya Pradesh. We are up to 48 branches now, which we expect to go up to about 59 in the next two months, so Madhya Pradesh will start contributing also a lot and we expect Maharashtra, Madhya Pradesh and then NCR, ideally, Delhi NCR to be the largest contributor for us.

Moderator: Next question is from the line of Vinod from VMware, please go ahead.

Vinod: I just wanted to understand what is the current mixes loan origination, like the different sources opening since from branches, partners and digital asset?

Rohanjeet Juneja: The majority of the business that was originated was from our branches that is 57%. The balance 22% was from partners that our preferred sourcing partners that do provide us first loss default guarantee. And about 21% of the business was originated through DSAs.

Vinod: Have there been any dispersal from money rabbit and Dhansetu?

Rohanjeet Juneja: So, there have been very small amount of dispersal from money rabbit in quantum it is less than 21 lakhs and Dhansetu went live just last week. So, we have started disbursement from that platform as well. That's a B2B channel partner platform.

Vinod: Okay, because this is very live, I'm guessing the numbers are quite small as well.

Rohanjeet Juneja: Danshetu, we will starts seeing more and more traction on numbers. We would not like to disclose what numbers they are right now. Obviously, they are small, but we expect that to continue on a day-to-day basis we have seen traction, as I mentioned, we only launched it last week.

Moderator: The next question is from the line of Vineet Mishra an individual investor, please go ahead.

Vineet Mishra: I just have one question. Can you please explain the co-lending partnership? So, what if the loan to loss in case of any default there?

Rohanjeet Juneja: You're talking about the relationship that we have with Central Bank of India.

Vineet Mishra: Yeah. Central Bank and EZ Capitals. So, what is the loan to loss in case of any default in that particular side?

Rohanjeet Juneja: The Central Bank of India, it's 80-20 relationship. They provide 80% of the gap, we provide 20%, these are in MSME gold loans, since they are fully secured. What happens if a loan becomes 90 plus DPD, which means it goes into the NPA bucket. We have 180 days post that to recover or replace that loan amount to Central Bank of India and because these are gold loans usually after 91 days of them being DPD, they usually get auction between day 91 day to 120 day. So far, we had no NPA in that relationship with Central Bank of India. If there were to be an NPA we would auction off the gold and pay back the loan amount to Central Bank of India. So, it's a recover or replace as its sub ordered in the contract.

Vineet Mishra: Who has the final right to authorize the loan here?

Rohanjeet Juneja: It's a co-lending agreement, which means it's a joint credit underwriting model on the RBI guidelines, which is model one under the co-lending agreement model. Joint agreement what we do is we underwrite the loan do the appraisal of the gold and all the collaterals and then they send us an external value who comes at the end of the day to the branch to again, evaluate the gold and the loan gets dispersed.

Vineet Mishra: So, can you please exchange the underwriting process here? I was wanting to clear on that.

Rohanjeet Juneja: So, the underwriting process has been agreed on prior to the relationship being cemented on paper, so that the entire process of how the gold gets evaluated, what percentage of LTV gets given, etc. is deciding jointly. We appraise the gold, we give the loan to the customer at the end of the day, there is an external valuer who is appointed by Central Bank of India that comes into our branch appraises the gold gives a final go ahead post which Central Bank of India gives us the money of their 80% contribution in the escrow account.

Moderator: The next question is from the line of Kevin Shah an individual investor, please go ahead.

Kevin Shah: Can you give as a breakup on the lending portfolio? Like what is the direct lending? What is the co-lending part?

Rohanjeet Juneja: So, today 97% of the portfolio is direct lending and 3% is on the co-lending part that we have with Central Bank of India.

Kevin Shah: My next question is regarding to the loan to value ratio. What is the loan to value ratio of each of the categories in its BDS that is gold loans, MSME business loan etc, things?

Rohanjeet Juneja: On the gold loan the average LTV is about 70% to 71% on the business loan obviously these are cash flow-based underwriting, so there is no LTV as such. What we do on the unsecured business loan is we take a co-applicant on the loan structure; the co-applicant must own a piece of property. So, the LTV over there would he be between 60% to 65% or 70%.

Kevin Shah: And last one more question. Currently, as we have raised equity and warrant and other things, so what is the target debt to equity ratio that we have targeting and moreover do we plan further equity raising?

Rohanjeet Juneja: Yes, so the debt to equity posts the warrant money coming in as well would be 2x. Our plan is to level the balance sheet to about 2x and yes, I under word is that by the end of this fiscal year itself is to at least have an announcement of an equity raise with a potential institutional funds that comes in whether that gets concluded in this fiscal year or not, will have to wait and watch, but our goal is to at least cement that with an institutional investor by the end of this fiscal year. We would like to have one more round of equity raise in this fiscal year itself. The idea behind doing that is then we will not have to worry about equity capital and we always like to run a fairly unlevered balance sheet like we have done in the last 4 years. In that way we can cement our growth plan for the next 2 years as well without having to worry about any kind of exogenous events in the market.

Moderator: The next question is from the line of Vishal Kothari from Paras. Please go ahead.

Vishal Kothari: Congratulations for wonderful presentation. Everything is very nice and we have disbursements excellent disbursement, total revenue is gone high, customer count also increase, net profit before tax is also very good. But why the share prices have going down?

Rohanjeet Juneja: Sir, with all due respect our focus is predominantly on the business. We would not have a good idea on over like to comment on the share price, our focus is on the business. We want the business to continue to well, which it is at this point in time. That's all we can say. The share price in all realities is not in our control. So, what we have control over is the business. We have institutionalized the entire business, professionalized the entire business, our branch town has gone up significantly in the last 2 years. So, if you look at all the traction that the business has gotten in 2 years from going in March, 2020 from 36.7 crores to 306 crores in 2 years, from 403 customers to over 33,000 customers network from 30 crores to 240 crores and 1 lender to 29 lender that's something that we strive on work towards, the share price and all reality, we have really no control over.

Vishal Kothari: The next question is from the line of Vineet Mishra an individual investor. Please go ahead.

Vineet Mishra: Average ticket size from the fan model that is specifically from financial inclusions for. What is average ticket size?

Rohanjeet Juneja: There is the average ticket size is between 2 to 2.5 lakhs and those are largely smaller ticket business and personal loans. That's where we are. And, but the financial inclusions stores are not as much of a big focus for us given the fact that we are increasing our branch count where the quality of underwriting and collections is much better. Okay.

Vineet Mishra: And so when we are looking at them overall AUM 87% of our book is backed by secured assets, right?

Rohanjeet Juneja: So, either by a first loss default guarantee by LAP loans or by gold loans, correct.

Vineet Mishra: So, remind them excess in process of FLDG partner from the regulated space. What is the process of selection of FLDG partner from here?

Rohanjeet Juneja: So, with the FLDG partner our credit committee does a very thorough evaluation of all the partners that who want to tie up with us that do the sourcing and the servicing for us. So, the credit committee, once they approve it based on several parameters which is fairly exhausted, which includes the networth of the company, their processes, systems, the way they underwrite, the way they collect, what kind of a team they have, the pedigree, the board of the company, etc. Once the credit committee approves it then is board decisions to decide whether we go ahead with the partner or not and obviously, what plays an important role this besides, the entire process and systems and capability of the partner and the ability for them to source loans in a particular sector or in a particular geography that is fairly attractive towards us is what kind of commercials do be agree with them on?

Vineet Mishra: So, what is view on the FLDG agreement going forward? As you know there are some new set RBI restriction on it.

Rohanjeet Juneja: We do not do any FLDG agreement with a non-regulated entity. So, if you get through some comments on the RBI as well, as long as the regulated entities, so most of our partners, if not all, are NBFCs. So, all they are regulated entities.

Moderator: The next question is from the line of Karan Bhanushali, an individual investor. Please go ahead.

Karan Bhanushali: That was a good presentation, that question just got answer in the last call.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Rohanjeet Juneja from Dhanvarsha Finvest Limited, please go ahead.

Rohanjeet Juneja: Thank you everyone for joining in the call, have a good day and look forward to hosting our next earning call. Thank you.

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