

June 25, 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
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Sub: - Earnings conference call transcript

Dear Sir/Madam,

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, and further to our earlier intimation regarding the earnings conference call for the quarter and year ended March 31, 2024, please find attached herewith transcript of the said earnings conference call which was held on June 18, 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Further, we hereby confirm that no unpublished price sensitive information was shared or discussed during the said earnings conference call.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**

Mauli Agarwal
Company Secretary & Compliance Officer
Email Id: csteam@iifl.com
Place: Mumbai

Encl: as above

IIFL Finance Limited

CIN No.: L67100MH1995PLC093797

Corporate Office – 802, 8th Floor, Hubtown Solaris, N.S. Phadke Marg, Vijay Nagar, Andheri East, Mumbai 400069

Tel: (91-22) 6788 1000 .Fax: (91-22) 6788 1010

Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, Thane Industrial Area, Wagle Estate, Thane – 400604

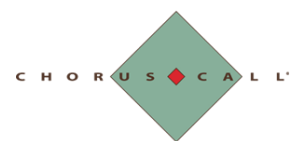
Tel: (91-22) 41035000. Fax: (91-22) 25806654 E-mail: csteam@iifl.com Website: www.iifl.com



“IIFL Finance Limited

Q4 FY '24 Earnings Conference Call”

June 18, 2024



**MANAGEMENT: MR. NIRMAL JAIN – FOUNDER AND MANAGING
DIRECTOR – IIFL FINANCE LIMITED
MR. MONU RATRA – CHIEF EXECUTIVE OFFICER -
IIFL HOME FINANCE LIMITED
MR. PRANAV DHOLAKIA – CHIEF RISK OFFICER –
IIFL FINANCE LIMITED
MR. KAPISH JAIN – CHIEF FINANCIAL OFFICER – IIFL
FINANCE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the IIFL Finance Limited Q4 FY24 Earnings Conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kapish Jain, Chief Financial Officer at IIFL Finance. Thank you and over to you, sir.

Kapish Jain: Thank you very much. Ladies and gentlemen, thank you very much for joining this call. This is the Q4 Earnings Call for IIFL Finance. On the call today, we have Mr. Nirmal Jain, Founder and MD of IIFL Finance. We have Mr. Monu Ratra, who is the CEO for IIFL Home Finance. We have Mr. Pranav Dholakia, who is the Chief Risk Officer. Myself, Kapish, and today we will talk about the progress of the company with regard to Q4 Earnings performance, including what's happening on the RBI side. For a complete update on that, I now hand over the call to Nirmal. Nirmal over to you.

Nirmal Jain: Thank you, Kapish. And welcome to the call to review Q4 as well as the full year performance. Very unusually, this time it has been delayed. The result announcement has been delayed a little bit, but there we are. As you have seen the results of the full year, we have ended with a loan AUM growth of 2%. And primarily, there has been a decline in gold loan on a quarter-over-quarter basis by 5% because March is the peak quarter and last year in the fourth quarter, we had a quarter-over-quarter growth of 13% in gold AUM. So that impact obviously is there on our total growth as well as on our profitability. I think we ended the year on a consolidated basis with a total decline of 6% on a Y-o-Y basis in our Q4 post-tax profit. And on a full-year basis, our post-tax profit has grown by 23%. And we ended the year on a consolidated profit of INR1,974 crores, which was a little short of our earlier guidance of INR2,000 crores for the full year on a consolidated basis. This is prior to minority interest. Now, a brief update on the RBI embargo and then about the macro environment. And then also, I'll discuss certain key aspects of the numbers before I hand it over to Kapish for a more granular and line-by-line discussion.

So as you're aware, on 4th of March, we had an RBI order on about, basically, a cease and desist for the gold loan disbursement and certain other activities with the gold loan business. And RBI in the order stated that they will institute a special audit and based on the findings of the special audit, as well as the inspection as they require, they will consider lifting the ban. The special audit has completed, and special auditors have submitted the report to RBI.

In terms of, as far as the company is concerned, we are very confident that we are fully complied with all the regulations of RBI as well as we have addressed all the deficiencies. Besides this, we have taken several other steps internally in terms of strengthening the organization, hiring senior-level people. A few have joined and a few more are in pipeline.

Also basically, having a much stricter and stronger audit and we are also in the advanced stages of having concurrent compliance audit along with more strengthened internal as well as the audit which is required to make sure that the compliance is full proof on an ongoing basis. Also, there are quite a few policy changes, and the board supervision will now significantly be higher. And all the alerts and compliance will be updated to the board as well and the board will regularly

discuss any exceptions in this to make sure that there is no recurrence of any lapse on compliance. So, we want to meet and exceed whatever expectations RBI can have from a regulated entity like ours.

Coming back to the macro environment, the macro environment is very positive. The democratic government is back for the third time and obviously the reforms continue. What the buzz and the activity that we are seeing at the ground level is also very positive. The first announcement has been about affordable housing which again is positive for our housing finance business. In terms of financial numbers, I think there are a couple of aberrations that I want to explain broadly before we, of course, take them up in question and answer if required as there may be more questions on the same.

One is about the gold loan NPA, because there's a significant spike in this quarter. But as far as that spike is concerned, in my opinion, there is no increased risk for a medium-term or long-term risk in that business as such. There are certain rollover cases.

Historically, if the customer has not paid in time, but if the gold value is enough to rollover the 75% LTV that was being done, obviously that practice has been objected to and obviously our auditors have taken a view that those assets or those gold loans have to be classified as NPA. Not only those gold loans, but the linked accounts. So supposing there's a delinquency like this in one account of a customer and the customer has taken two more gold loans, then all three have to be classified as NPA.

Now, if you have rolled over these gold loans, then we also can't go back to the customer and ask him to liquidate because we can't take that to auction until the rollover period is over. So it's a matter of one or two quarters, because obviously when these cases come up for rollover again, we should not have this practice which is not fully compliant with the RBI regulations. But what we intend to do is that once the rollover period is over, then either the customer has to pay or these loans will go for auction and in wherever customer can arrange for it, they can also get the balance transfer done.

So that is about approximately INR272 crores in the gold loan and that has resulted in the spike in gold loan GNPA and which I think will normalize in the next couple of quarters. But what is really heartening and what is really positive for us to note that our loan book which was around over INR26,000 crores on the 4th March has come down a little below INR16,000 crores currently and more than INR10,000 crores of gold loans have been repaid by the customers and they've taken their jewellery and we did not have any case of customer disgruntled or any asset quality issue or losses and that actually has been a real trial by fire which basically testifies to the systems and our credit underwriting has been fairly robust. Other than that, I think there's a INR200 crores of loss in a fair value.

We had an AIF which was expiring, tenure was expiring on 1st of June but the large investors basically opted for In Specie distribution and that, those debentures, we also opted for the same, have been sold to ARC and broadly there has been a fair value loss of around INR150 crores there and also the SRs which we had with ARCs have been, most of the ARCs valuations of the SRs have been more conservative and there was almost a write-down of about INR100 crores

there and there has been some provision right back so broadly there's a INR200 crores of hit coming primarily from the AIF unit.

Now, our exposure to AIF is just about INR5 crores which is the minimum required as a sponsor and all other assets have been, the units have been redeemed and the debentures which we received in specie, they have been basically disposed off to ARC. Another question which obviously will be there in the investor's mind is how are our disbursement and the growth in businesses other than gold loan?

So we have three more businesses as you are aware so in the month of March obviously because of the sudden shock the business has slowed down after the fourth month but in this quarter home loan is more or less resumed and has become normal and I think the disbursement in this quarter are expected to be similar to the same quarter last year broadly in-line however microfinance still is under a little bit of caution in terms of availability of credit from the banks and the growth that we want to basically have in this.

We also want to make sure that this business also becomes full proof in terms of compliance before we resume the normal growth. So the disbursement in this quarter compared to last quarter last year maybe about half and the book may go down a little bit in this quarter as well. In terms of our operating cost which again in Q4 till the RBI order came we were on a growth path and particularly our microfinance business was also on an aggressive hiring spree for the branches that were set up in the quarter before. And March quarter typically also is a higher volume and higher cost as well in terms of the incentive bonuses which have been committed or approved, they are also paid out.

So the cost has gone up in the March quarter but now when we talk about this quarter we have not retrenched any people and obviously whatever retrenchment is happening is normal of course what was the trend even before the RBI order because we are very hopeful that we will be able to resume our business and even if it means operating cost or operating loss in terms of maintaining the infrastructure which is very important for us to do that because millions of customers jewellery and ornaments they are in the custody of our employees and our branches.

So our branches and employees remain as it is and I must express my gratitude to all the employees because despite this uncertainty they've been holding the fort with full commitment as well as confidence and faith in the company and the business and they've been servicing the customers because despite the fact that several lakhs of customers have closed their accounts we did not have any customer service issue or any complaints from customers of any significance as such.

So we hope that we'll come out of this crisis, and we'll have our compliance much stronger as we go forward. I think with this I'll hand it over to Kapish and then I'll be back for Q&A. Thank you.

Kapish Jain:

Thank you very much, Nirmal. Once again ladies and gentlemen a quick update on our financial performance. In light of the embargo that's currently there with the RBI the numbers are in

slightly muted. So for the quarter IIFL Finance profit after tax before non-controlling interest was INR431 crores down 6% Y-o-Y and down 21% on a quarter-on-quarter basis.

We recorded pre-provision operating profit of INR990 crores which is up 30% Y-o-Y and 3% on a quarter-on-quarter basis. For fiscal 24 IIFL Finance profit after tax before non-controlling interest was INR 1,974 crores which is up 23% Y-o-Y and pre-provision operating profit was 3,664 up 30% Y-o-Y. Talking about the AUM for the quarter consolidated AUM grew by 22% on a Y-o-Y basis and 2% on a quarter-on-quarter basis to around INR78,960 crores.

Further dissecting the AUM, our core product driven by home loan, gold loan, digital loan, microfinance, and LAP so the gold loan had a degrowth, the core products in aggregate grew by around 25% and 4% Q-on-Q. The segment now comprises of 97% on a retail book perspective because the CRE book de-grew by around 31%. Our gross NPA is marginally high at 2.3% for the reason that Nirmal explained earlier and the net NPA is around 1.2% which is up by 48 basis point and 11 basis point respectively when you compare with the same period last year. Our series guidance has been 2% of gross and 1% of NPA. We have slightly digressed there but we're going to come back to those numbers in the soonest time possible.

With the implementation of the excess credit loss under Ind AS, our present coverage ratio stands healthy at around 104% and during this quarter as Nirmal mentioned the real estate AIF investments were matured and these assets along with two CRE accounts have been transferred to an ARC since there was a higher expectation with regard to recovery time for the ARCs. In Line for our capital optimization strategy 36% of our AUM is either assigned or co-lent to banks as of March 24 and going forward we will see our relationship going forward in additional products like business loans and home loans on the co-lending side. The assigned loan book stands at INR16,488 crores down by 3% Y-o-Y and 12% on a quarter-on-quarter basis. Besides this, co-lending assets are at INR11,639 crores up 54%.

Our quarterly average cost of borrowing has increased by 20 basis point Y-o-Y and 6 basis point to 9.13 as on 31st of March. Now a brief update on our liquidity position. So during the quarter, we raised INR5,531 crores. Prominent among them was INR1,271 crores that we raised through the rights issue in May and INR500 crores that we raised through the NCD that we borrowed in the month of March. Our cash and cash equivalents stands at around INR6,559 crores.

This is adequate for us not just to meet our near-term liabilities but also to fund our growth as we go forward. We have a positive ALM whereby our inflows cover or exceed expected outflow across all our buckets. And our net gearing stands at 3.7% not considering the INR1,271 crores that we raised in the month of May. Our annualized ROE for the quarter stood at 14.6 while ROA stood strong at 2.9%. For the full year, it was 18.4% ROE and ROA is now 3.4%.

Our basic earnings per share for the quarter is INR9.8 per share and fiscal 24, it was INR46.3 per share. To summarize, as of March 24, our capital adequacy ratio for NBFC is 19.7. If I would have considered the equity raise in the month of March, this capital adequacy would have been healthier at around 26%. Housing finance capital adequacy was 42.8 and Samasta was 24%. So with this, I hand over the mic back to Nirmal for any Q&A that you open the floor now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhaval from DSP. Please go ahead.

Dhaval: Yes, hi. Thanks for the opportunity. I have a couple of questions on the opening commentary. First is relating to the fair value impact. Just wanted to understand, versus our last valuation, how much was the cut down in our final realisation. And so just if you can spend a minute more to explain what led to this markdown given that generally real estate market is, doing reasonably well. So just any specific reason for the sort of reduction in the value? So that's the first question.

And second is relating to, you know, just given that the bulk of the quarter is behind for 1Q, if you could just update on the liquidity position as well as on the growth across all the three businesses, how do you see that for the rest of the year? And also if you can give some perspective around assignment income, how that is likely to shape up in the current financial year? Yes, thanks.

Nirmal Jain: Thanks, Dhaval. So the markdown has two components. One is ARC, the security receipts that we have. And the second is AIF units that we sold. So in case of ARC, there's a valuation done for SR, there's a fair value which is done every quarter. And so, the real estate market is good. That is a fact and there's no denying that. But this quarter-on-quarter valuation, they basically take the realization, the flow of interest, and many other things.

So how rating agencies do this, I also don't have 100% insight into it. But these valuations are done quarter over quarter basis. My perception is that, given that there's general caution with the regulatory stringency that we are seeing, that people are becoming more conservative in terms of how they value the SR. But whatever we realize, so we get our component of SR, which is maybe more -- typically is around 85% in the many of the transaction that we have done.

So to that extent, this becomes like a temporary thing. Because ultimately, what we realize the bulk of it comes to you. Most of it comes to you. So the second component is AIF, which is where we have again, real estate assets. So, these units, again, when they are sold to ARC, the typically 85% SR remains with us. And there again, because we had to do this transaction a little quicker in the month of March, and everybody wants to be a little more conservative today when they value these assets. So the fair value was done every quarter, and we could have let it run the full course till first of June.

But there was concern about AIF, which RBI has raised several points in time, that regulated entities should not have their loan accounts or these assets in the AIF. Now, this is a very little bit of a tricky case because RBI regulations said that last 12 months, these assets were transferred three years ago. But when they were transferred 12 months before that, they were on our books.

So the AIF also had been transferred at a negotiated value. And in case we realize more that the real estate market is good, then that will come as a gain on the SRs that we hold.

The second question about growth. As I said that in the home finance, we are seeing that the growth is, the disbursements has normalized. They are at a level maybe similar to what it was in the first quarter of last year.

Maybe, and then going forward in the next few quarters, we'll see growth as the environment also has become positive with Prime Minister announcing the reinstatement of affordable housing scheme and the incentive for the same. And I think the third question was about assignment income. So gold loan assignments have not happened, obviously, because of the RBI embargo. To that extent, assignment income will be impacted incrementally, because whatever we could have got on this and the other income will run down over a period of time.

And in Housing Finance, I think assignments will go at normal course. But in any case, if you see our last year's Housing Finance, then there was hardly any incremental assignment income, which is upfront is almost negligible now. It's zero. It's negligible. And therefore, we don't see any Y-o-Y impact there.

Dhaval: Just one follow up on the first point on the AIF unit. Just these were transacted by 360 One for us and were largely sold to private investors, because...

Nirmal Jain: No, 360 One is not involved in this at all.

Dhaval: Okay.

Nirmal Jain: So there's no 360 One in this. It was straight away sold to ARC.

Dhaval: Straight away sold to ARC and got it.

Nirmal Jain: In the fund, I think 360 One had a INR1 crores investment originally, but that remains. So there's no change there. But other than that, 360 One has no involvement in this.

Dhaval: And just one final thing on the NSE stake that we bought. Any update on that? Have we monetized that in this quarter?

Nirmal Jain: So I think that has been bought in this quarter, June quarter. And by the end of the quarter, most likely it will be liquidated. And whatever gain or difference will be accrued in this quarter, June quarter.

Moderator: Thank you. The next question comes from the line of Anusha Raheja. Sorry, that's Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: So I just wanted to understand now, because of this uncertainty, even our cost this quarter has gone up, right? When the cost-to-income is on a higher note. So how do we see that the cost-to-income in this year, FY '25? I mean, will it normalize, or will it stay at these range?

Nirmal Jain: Yes. I think the cost-to-income also – now, there are two. One is the total absolute cost might come down a little bit because although we have not retrenched or we are not reducing manpower as such, but the variable component may become lesser with the business and whatever cost control measures that we are taking. But cost-to-income ratio may remain a little more elevated because our gold loan book has run down. And obviously, the income that we get, the net interest margin, which we are getting, say, on INR26,000 crores on March and actually would have grown further in the month of March will be significantly lower.

But once the ban is lifted, I think it'll take a couple of quarters or a few months for us to try and gain our market share as much as possible. But because the income will be impacted, the total AUM is impacted, cost-to-income will be impacted this year, at least for this year negatively.

Deepak Poddar: So absolute level, I mean, I think this quarter, it was around INR1,060 crores, right? So on an absolute level, going forward, maybe it will be around that range only, right?

Nirmal Jain: It should taper off a little bit with the savings and variable and whatever we are able to achieve. But it won't be significantly different, but it should be a little lower.

Deepak Poddar: Okay. And I got that point. And on the gold loan side...

Nirmal Jain: Our consolidated quarterly operating cost is INR769 crores. INR769 crores that is the number that you're referring to, right?

Deepak Poddar: Yes. This quarter, it was about INR1,060 crores, right, on the operating cost?

Nirmal Jain: No. I don't know which number you're referring to.

Deepak Poddar: Yes. The consolidated operating expenses, right?

Nirmal Jain: Consolidated operating expenses for the quarter is INR769 crores.

Deepak Poddar: No. So it includes those fair value, adjustment as well.

Nirmal Jain: Fair value is one off. So I don't think that INR200 crores loss, should not come back. I mean, that is that is not recurring. The operating cost component is INR769 crores, not INR1,000 crores. Fair value as I explained, that is the one-off thing. Yes.

Deepak Poddar: And do we have any kind of understanding on the gold loan side? I mean, will this ban be lifted or how soon we expect it? So any kind of comment would be helpful?

Nirmal Jain: No. Actually, it's all with RBI. So I don't have any more insight into this. We are engaging with the RBI. We are trying to satisfy and make sure that we meet all the requirements that they have.

Deepak Poddar: Correct. Fair enough. And, I mean, do we want to taper off the growth outlook that we had given earlier in terms of this year 25% growth? So what maybe the range we may look at right now given the consensus?

Nirmal Jain: I don't think, at this point in time, we can give any outlook or guidance on growth. The thing is RBI ban has to be lifted. So, our focus will be in compliance this year and the compliance, risk management and control. So, there's no guidance for growth that we can give.

Deepak Poddar: That's fair. I think that's it from my side, sir. All the very best. Thank you.

Moderator: Thank you. The next question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

- Abhijit Tibrewal:** Yes. Good afternoon. Thank you. Sir, first question was on, the SRs. What is the total quantum of SRs that we have on our balance sheet? And against them, what are the provisions that we're holding today?
- Nirmal Jain:** So SRs are valued at fair value. So every quarter, the ARC basically do to valuation of them. And so we have SRs for all businesses, in terms of microfinance, SME and construction and real estate finance . So I think on the standalone NBFC it is a little less than INR3,000 crores.
- Abhijit Tibrewal:** Okay. So in the Standalone of NBFC, we have total quantum of SRs, which are less than 2,000 crores?
- Nirmal Jain:** Less than 3,000 crores.
- Abhijit Tibrewal:** INR3,000 crores, okay. And versus this INR3,000 crores of SRs, how much provisions will we be holding on them?
- Management:** As mentioned, they are marked down. So, depending on the valuation that you get. Yes, so there's a fair value, which is done. So, basically, the provision is taken care of the fair value.
- Abhijit Tibrewal:** Got it, got it. So, secondly, on gold loan...
- Nirmal Jain:** So, we have marked them down by almost INR100 crores.
- Abhijit Tibrewal:** So, secondly on gold loans, I just wanted to understand why you have already said, I mean, the ball is now in RBI's court. But just wanted to understand, after the special audit was concluded, what kind of conversations we've had with the RBI? And secondly, in gold loans, are we taking any cost rationalization measures?
- Nirmal Jain:** So, we are having a very positive engagement with RBI. We are taking their guidance and trying to come up, to make sure that there's 100% and highest adherence to the compliance. Cost rationalization measure, I said no, because we have a fairly well-trained team and a business that has been built over the last 14 years assiduously.
- So, we don't want to do any cost-cutting because customers jewellery is in our custody, and we hope that we should be able to resume business quickly. So, at this point in time, I think we are running the entire infrastructure as is. And we are doing all the necessary steps required to make sure that we retain all our people as much as is possible.
- Abhijit Tibrewal:** In your opening remarks, you suggested right that gold loans are a little less than INR16,000 crores. Now, this is as of May or as of date?
- Nirmal Jain:** As of date.
- Abhijit Tibrewal:** And so, I mean, has gold loans seen, especially employees in gold loans, have we seen any significant attrition, especially the front-line staff?
- Nirmal Jain:** There's normal attrition, which has been there historically, but there's no additional attrition that we have seen. So, in the entire crisis, we've been able to hold back our people and make sure

that the customers are not inconvenienced, and they're serviced properly. Actually, it's just coincidental that last year we had announced a golden ESOP scheme where many of our old employees were given three-year bullet-resting ESOPs at INR10, regardless of the stock price.

Obviously, those stocks are significantly in the money and people expect to build their wealth and that has been a good retention tool. But other than that, we are engaging with our people and most of them are old, loyal, trusted people and they have full confidence and faith in the company's business and our ability to steer clear of this.

Abhijit Tibrewal:

And so, my last question is, again, kind of circling back on liquidity and cost of borrowings. Understandably, you might not have had to borrow a lot incrementally after the gold loan ban, but how is it the engagement with banks or that market participants going on after the ban?

And I think in your commentary or the press release, we said that we are now kind of thinking about more controlled AUM growth. So, understandably, until the time this ban gets lifted it's difficult to really guide on AUM growth targets but at least are we kind of looking at more moderated growth going ahead given that you spoke about gold loans will start going only after the ban gets revoked. In microfinance, we are again kind of looking at some calibration. So, other than maybe digital loans and housing finance, we are seeing some moderation going ahead.

Nirmal Jain:

I think I don't want to speculate about growth, and I don't think that it would be right to say it will moderate or not moderate. But what I'm trying to say is that we don't want to give any guidance on growth. And this year, primarily we want to make sure that our assurance functions, which comprise of risk management, audit, and compliance they should become full proof.

They should become something like industry benchmark. And in terms of the organizational goals, growth becomes secondary. But that doesn't mean that there's any guidance of a slowdown or acceleration of growth. But the best is that there's no guidance for growth. That is what I would like to put it. Secondly, in terms of liquidity, we have INR6,559 crores of liquidity as of March end which is fairly comfortable.

Even today, our liquidity is quite comfortable. And even before the crisis we had always been conservative and kept our liquidity which is enough to cover the contractual liabilities for the 6 to 12 months in the foreseeable period. So, we have not faced any liquidity issue as such. And even continuing, I think liquidity is not the challenge right now. But what we need to put together is that once RBI's positive action is there then we can resume our business.

Abhijit Tibrewal:

Just to sum that up, I mean suffice to say that if at all we see any controlled growth going ahead, that will not be because liquidity is something that is constraining. This is all that I was kind of trying to understand.

Nirmal Jain:

I mean, I won't put an adjective of controlled growth, but yes, liquidity is not a constraint for whatever growth you have to achieve.

Abhijit Tibrewal:

Got it. So, that's all from my side. That's all from my side. Thank you very much and wish you the very best.

Moderator: Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings Private Limited. Please go ahead.

Pranay Jhaveri: Good afternoon, sir. Thank you for this opportunity. This is just one question from my side. Can you just elaborate on your comment earlier which you made on microfinance? Thank you.

Nirmal Jain: In terms of what, what was the comment about microfinance?

Pranay Jhaveri: Basically, you will see in the book, degrowth or basically the disbursements are quite slow.

Nirmal Jain: Yes, basically, microfinance growth has been slower in this quarter, in the current quarter that we are seeing. So, microfinance business, historically, last year has grown much faster. Now, you know, actually, when we talk about growth, growth is neither a problem or a solution, but when there's a growth that can be a source of the problem.

So what I'm saying is that we don't have growth as primary objective this year. Our primary objective is to make sure that our assurance functions are robust, our systems and processes are such that they're completely fail-proof and they meet in absolutely 100% the regulations in letter and spirit. So that is what the objective is.

Now, in microfinance, there are two things that have happened. One is we are trying to make sure that our compliance is strengthened further there. And two is that after the RBI embargo, the banks have been cautious in lending incremental credit to this business, microfinance. And we also see that as an opportunity to make sure that we make our systems and processes more robust and make sure that there's a reassessment of our control system.

So one or two quarters of microfinance will remain slow. And that actually gives us an opportunity to make sure that our house is fully robust and properly in order. But that is what I got in my commentary on microfinance.

Pranay Jhaveri: So just one clarification here that will be helpful. So is this because of the embargo of RBI for the gold loan business or there is something...?

Nirmal Jain: What happens is that, yes, embargo of RBI for gold loan business, the banks have become cautious about lending to all the businesses. But in case of housing finance, we have raised equity capital, and we have a fairly robust capital adequacy that you see there. And also, it's an entity which is regulated by NHB as well. And in terms, so all the businesses work differently and separately, but microfinance credit lines have been impacted more.

Pranay Jhaveri: So this would be on the liability side. Because we are hearing some noise of RBI in terms of higher interest being charged. Is there something to do with that?

Nirmal Jain: In the entire microfinance sector, actually. So yes, there has been RBI concern about these things. And everybody, I think, the association is also looking at it about the interest rates and many other things about the industry. See, this industry long term has tremendous potential, and it serves a very good social cause because people at the bottom of the pyramid, even if they borrow at 22% or 24%, what is the current rate typically in the microfinance industry, this is my

understanding, but obviously and I don't have any authentic research in my hand, but obviously, with our people, with our branches and whatever feedback we get from our customers, the alternative cost of funding for these customers at the bottom of the pyramid would be significantly higher or complete non-availability of capital. And even by paying this kind of interest rate, most of them see significant improvement in their living standards.

They are like handicraft or people who are vegetable vendor or those who are in certain cottage industry. For them, capital is such a constraint that if some small amount of capital also can basically change their lives. So the industry has a good purpose and a good cause, but there are certain regulatory practices which may get tightened and obviously, industry and regulators will work together for that.

Pranay Jhaveri: Great. So to sum it up, do we see AUM degrowth?

Nirmal Jain: In this quarter?

Pranay Jhaveri: No, for this whole year.

Nirmal Jain: I don't think so. I think we should be able to catch up over a period of time, over the rest of the year.

Pranay Jhaveri: So, like a flattish year for microfinance this year?

Nirmal Jain: I'm saying it's difficult to give guidance, but what we have to do is that, if there's enough, the industry will grow, we'll participate in that. This quarter may be slow, but in next quarter, as we get very confident about our assurance, we might be in line with the industry. So it's very difficult to give guidance, but we really have to see how things evolve from here.

Pranay Jhaveri: Fair enough. Thank you so much, sir. Thank you.

Moderator: The next question is from the line of Anand Laddha, from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Hello, sir. Sir, if you can give some more clarification on the value of SR. So what is the gross value of SR at the console level we are holding? And what is the current markdown value of those SR?

Nirmal Jain: I don't have these numbers readily with me, but we can figure out. So what happens in case of SR is, I don't think that the concept, the way it works, the accounting and the INDAS, is that they're valued every quarter and they're just like in all the stocks or any other asset for that matter and then you take the value. So many times, the value goes up with the accrued interest as well as the gain that is there, but I don't have those gross value markdown number, but we value at the basis, the fair value, what we get from the ARC, so.

Anand Laddha: Okay. But, sir, we would at least have the markdown value of those SR we are holding today?

Nirmal Jain: Well, I'll tell you why it becomes very difficult to do that. Because once you have SR and whatever repayment has come, that basically keeps adjusting the value. So the value, the gross value, supposing two years ago or three years ago, we had issued certain SR, there have been

quite a few repayments done over a period of time. There may be small, small repayments, but every quarter they come, they also keep adjusting the value. Plus, there's a pool which keeps changing over a period of time.

So it is not an instrument which is static because if there's a repayment, NAV goes down and then there's the mark-to-market up or down, so it keeps changing every quarter. And it's a pool, so some of the SRs would have been issued last quarter, some of the SRs would have been issued two quarters, three quarters, one year, two year back, so it's all, to segregate and find out gross value will be very difficult. It will be very different for every SR.

Anand Laddha: Okay. So I'll take that offline. Sir, if you can give some clarification on the NSE transaction we did, sir. It's not a usual business transaction. So at one instance, we are taking a liquidity support from Fairfax, one of our large stakeholder, and at the end of the transaction, we are buying some equity from them. So if you can give some rationale for this NSE transaction.

Nirmal Jain: So as per our internal treasury policy, out of the liquidity that we have, a small percentage can be put into, say, such as equity, IPO, or other equity-related instruments, but with a short-term objective. Now, this transaction was contracted before the RBI order, which is before 4th of March. But I don't know, as a group, we have more than 2% of NSE in various funds of our 360One and others.

And therefore, the approval process is a little longer. And NSE took more than a couple of months to approve the transaction. But obviously, Fairfax had contracted the trade before the order, and the approval came later, but both the parties committed to honour the contract. And that's how the transaction culminated after the order. And that is when it came to the public as well as the limelight, in terms of discussion. But having said that, as I said, that as per our treasury policy basically, these equity instruments are only for short duration. So they'll be liquidated during this quarter. And so I think, I mean, does that answer your question?

Anand Laddha: Perfect, sir. So lastly, on the NPA, we have seen some increase in gross NPA in the Gold Loan as well as developer loans. So if you can give some colour on the same.

Nirmal Jain: So I think I explained in my preamble that with Gold Loan, there are rollover cases where earlier we took a view that if the loans are less than 75%, we can take it as a new loan or we can deem it as a new loan. But auditors have taken a view that that is not the case. And these have to be treated as NPA. But then we have rolled over for the customer, we can't really press the customer for repayment faster. So we'll wait for the rollover period to get over. So in this quarter, next quarter, they'll come back to normalcy.

But as I said, in our Gold Loan portfolio, almost the book has reduced by 40%. But we did not have any case of a customer complaint or a loss or any other problem for that matter, so this is about the Gold Loan rollover. In case of construction loan, there's one case, one loan of around INR50-60 crores or so, where there is a one-quarter delay in the payment.

But we have a fairly strong quality cover there. But that has to be classified as NPA because there's more than 90-day delay there. I don't expect any loss there, but it has spiked the CRE

GNPA for the quarter. Because now the book also has become smaller after the ARC transfer. So on the smaller book, that INR50-60 crores also becomes significant.

Anand Laddha: Perfect, sir. And lastly, sir, on the housing finance business, at least you don't have any liquidity challenge in that business and that business can continue to grow.

Nirmal Jain: Yes, Monu is here with me. Maybe he can talk, share his thoughts on this.

Monu Ratra: Yes, hi, Anand. So in housing finance, usually, as you know, the Q1s are a bit muted because a lot of changes happen. But keeping that in light, we are very much the way Q1s are. And our disbursements of housing finance business are as usual as they would be in a quarter one. So this was as per our annual plan as well. So we are doing pretty fine there.

Anand Laddha: Perfect, sir. That's from my side, sir. Thank you.

Moderator: Thank you. The next question is from the line of Anusha Raheja from the Dalal & Broacha. Please go ahead.

Anusha Raheja: Yes, thanks for taking my question. So you had AIF exposure amounting to around INR1,200-odd crores, which was supposed to get matured. So, I mean, the loss rate is notional, or you have booked it? It's a realized one?

Nirmal Jain: No, it is not. So this loss can be recouped if these assets basically realize, although 85% of loss can be recouped because if there's a higher realization, then this SR, 85% share comes to us.

Anusha Raheja: Okay. And so in Q1, so can we expect normalization in the gold loan entries, or do we expect the rise in the NPA and the gold loans to continue in the Q1 as well?

Nirmal Jain: No, I think NPA in gold loans will get normalized partly this quarter, partly next quarter. But hopefully next, by next quarter, more or less, they will be in line with the historical normal trend.

Anusha Raheja: And what's the resulting rise in commercial real estate loans NPA?

Nirmal Jain: there's one loan where the instalment was not paid and it became over 90 BPD, so it had to be classified as NPA.

Anusha Raheja: Okay, sir. Thank you.

Moderator: The next question is from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka: So my question's on the standalone business. So in the period where there's a contraction in gold loans and you can't disburse, you'll still be maintaining the infrastructure, the people, branches, all of that. So that cost will obviously stay on the book. So is there any alternate business that you are planning to do in the meanwhile? Or just how do you plan to use that infrastructure? Or did you just maintain it and wait for the approval from the RBI? What's the strategy there?

Nirmal Jain: No, it's a good question, Abhishek. So we thought and internally we deliberated and debated a lot on this. So one is that the people are still in gold loan while we have tried to train them in

unsecured business loan as well as LAP. And also, they're cross-selling insurance and other products. But because the core is gold and as we expect that maybe in a short time, we should be able to resume our business, based on that premise, we have not disturbed that infrastructure. But what we have done is that we have told our people to engage with customers and track them carefully, service them properly, so that whenever business resumes, we can get back our old loyal customers as quickly as possible. So that's a call one has to take.

And so in terms of -- I don't think we'll diversify in terms of strategic focus but the product that in any case we've been doing where we have the core competency that is where we can use the branches more intensively. Because what happens is that it's just a matter of a few months and any new business product matter will take a few years to stabilize go up the learning curve and get critical mass. So we thought that we'll stay put. We'll do certain cross-sell and mitigate the damage. But other than that, we'll wait for the gold loan business to resume.

Abhishek Murarka: I was thinking of something like sourcing the gold loan for a bank where you can keep using your customer and you're not deploying anything to the bank.

Nirmal Jain: I think we can become a business correspondent and source 100% for the bank. That is not something which is prohibited. Now the challenge is that every integration in terms of process, technology is fairly long particularly with banks. Because even in co-lending, it takes six to nine months because almost in the real time KYC check and a credit underwriting is done. So what is happening is that we tried to pilot this, but we realized that if the normal business operations will resume say in a short time, say a few weeks then it may not be worth the effort to change the course because it's a huge effort.

And then when the colending starts then we are already tried and tested for colending. So we can do all our other activities quicker if we don't digress. That is what the thought is. But we have piloted, we have talked to a few banks, and we are still working on it. We are keeping it ready as a backup emergency plan in case there's an inordinate delay. There the margins are also different and there are many other implications in terms of process flow, technology and integration.

Abhishek Murarka: And in terms of the RBI conversation, while I understand there won't be any timeline, yourself might be a little unsure of the timeline but after the RBI comes back then how long does it take for you to restart? Let's say whenever they come back.

Nirmal Jain: We have been engaging with RBI they've been supportive, and they've been helping us understand the issues and how to navigate. But whenever the ban is lifted, we can come back quickly because immediately the next day we can start the business. Now the question is that the bank credit lines, typically banks also take some time to process the application, which can take about a month to month and a half, but we already have liquidity cushion.

So the colending and many other of these transitions can start very quickly immediately, maybe on the next day or within a week, if I had to be maybe a little more conservative but I think the business will start immediately. And it gathers momentum as we go along. Within a month or two months, we'll try and get back to the disbursement level that we were. And within a few

months maybe six months, we'll try and get back, we'll hope to or look forward to get significant part of the market share back.

Abhishek Murarka: And just lastly, in terms of MFI, so till the time the ban lasts, you expect some liquidity tightness to continue, or can that be independent of the ban and slowly lenders get comfortable and start lending more? How do you see?

Nirmal Jain: In microfinance, Venkat has joined the Board and we also got very marquee people on the board. And the business model is also under review and we are making sure that it is robust from long term point of view. So hopefully, that business, in terms of the disbursement, pace should pick up from next quarter and we'll accelerate from there.

Abhishek Murarka: Okay, thank you, Nirmal, all the best.

Nirmal Jain: Thanks, Abhishek. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dhaval from DSP. Please go ahead.

Dhaval: Thanks for the follow up. Just a few more questions. First is on this running cost of the gold loan business now. Nirmal, if you can just give some perspective on it. And also, what's the potential runoff that we expect in the next couple of months? So that's one part. And the second is on the NPA in the digital PL book, while the book is small. But just any thoughts of seasonally 4Q is normally a good quarter. So any specific reason? And are you seeing some bit of pullback in 1Q or it's?

Nirmal Jain: I think your voice is getting a little muffled. Your first question was, what is the running cost of gold loan?

Dhaval: Yes, running cost of gold loan. And the runoff that is expected in the next couple of months in the book. And the second question was relating to the digital PL book. We've seen a spike in the NPA in the fourth quarter, which is a seasonally good quarter. Just is that getting arrested in 1Q or is it likely to deteriorate further? And what's the course direction that we're taking in that portfolio?

Nirmal Jain: So gold loan, our standalone running cost is around the INR360 crores in a quarter, which is around INR120 crores per month. But that includes the top management cost as well as business loan. And significant part of that cost is difficult to separate. So that is one thing. Second thing is about digital finance. That book has a higher yield and slightly higher losses also. But over medium to long term, I think business still is profitable and generates the required ROA. Now in that business, what has happened is that we have in terms of small ticket business loan, what we're doing is smaller and smaller. As you become granular, your yield goes up or yield is maintained at a higher level.

And your NPAs may go up a little bit. So, I think that's the character of that business. But what we have done in that business also is that there are certain changes that we have done in terms of the credit underwriting process as well as the ticket size. So, what you will see in this year is that ticket size might improve a little bit and the GNPA's will fall.

So, if you say from FY'24 and FY'25 end, then our internal business strategic plan is basically to bring down the GNPA's which are between 3% and 4% to closer or maybe less than 3% or more closer to that. And that might impact yield a little bit, but broadly, I think that we should be aligned with that. And the business will have robust growth this year also.

Dhaval: And sorry, let me just comment, runoff in the gold book, that's roughly about INR3,000 crores kind of number per month?

Nirmal Jain: So, runoff in the gold book is almost about 10% per month.

Dhaval: 10% per month. And does it accelerate in the rest of the year because of the residual maturity being now relatively lower compared to when we started? So, does the principal runoff accelerate as we progress month after month?

Nirmal Jain: Not really, because at any point in time, you have a book which has different residual maturity. So like, supposing March, when we had a pause, so there would have been loads of Feb, Jan, December, and going back. So broadly, there won't be any acceleration in the runoff. But as the book goes down, the absolute amount of runoff will also go down.

Dhaval: And just to the question that Abhishek asked around this alternate option, including the BC one that you talked about, at what point do we decide to sort of move in that direction. Is there a particular timeline that you have in mind around which we think of this INR120 crores fixed cost that we have largely to re-utilize that in other ways?

Nirmal Jain: So I think, by September, hopefully. When we've been engaging with RBI and we are taking their guidance, and they're very supportive in making us understand, and they're also understand the problems and the issues that we are going through. So, I think what they want is also the compliance is done, then they also want the business to resume and support.

So, there's no reason to be really pessimistic about this business as such. But still to answer your question, if these things continue for three more months, then obviously we'll look for, or maybe two months to three months more, then we'll look for alternate plans, which is, maybe a significant cut in cost, or the other businesses as such.

Dhaval: And our audit for FY'24 will be starting anytime, or it's already underway, the RBI audit?

Nirmal Jain: So, the audit cycle has started, so maybe the next year, FY'24 audit will start anytime. I really have no idea on that, but that can start at any point in time now. I think it starts from July, if I'm not mistaken, I think there are many NBFCs, so they take it up from July onwards.

Moderator: Thank you. The next question is from the line of Gokul Raj from Bavaria Industries Group. Please go ahead.

Gokul Raj: Hi, Nirmal. Any updates on the business...

Moderator: Sorry to interrupt, but the line is not very clear. We're getting a slight echo as well from your line.

- Gokul Raj:** Yes, I was wanting an update on the business loan because all the other three segments have been updated, so any update on the business loans?
- Nirmal Jain:** Business loan has many segments. One is unsecured business loan, the second is supply chain financing, and the third is loan against property. On a smaller base, that business has been growing at a normal pace as it was growing in the last quarter. So that business on a relatively smaller base will continue to grow this year.
- Gokul Raj:** Because of the business loan in the standalone NBFC, has that had a huge impact or that is continuing as per your plan?
- Nirmal Jain:** No, the standalone NBFC, the business continues in standalone NBFC, and so the disbursements are at normal pace.
- Gokul Raj:** Thank you. Best wishes.
- Moderator:** Thank you. That was the last question, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, gentlemen.
- Management:** Thank you very much, ladies and gentlemen, for joining this call and for your patience hearing. For any further queries, you may reach out to the investor relations team, and we'll be happy to address any query that you might have any further. Thank you very much and connect back with you soon. Yes, thank you so much. Thank you all the investors for being on the call and your support. Thank you.
- Moderator:** Thank you. On behalf of IIFL Finance Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.