May 06, 2022

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

Sub: - Earnings conference call transcript

Dear Sir/Madam,

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and further to our earlier intimation regarding the earnings call for the quarter and year ended March 31, 2022, please find attached herewith transcript of the said earnings call which was held on Friday, April 29, 2022.

The same is made available on the website of the Company i.e. www.iifl.com

Kindly take the same on record and oblige.

Thanking You,
Yours faithfully,

For IIFL Finance Limited

Sneha Patwardhan
Company Secretary
Place: Mumbai

Encl: As above

CC:

Singapore Exchange Securities Trading Limited
2, Shenton Way, #02-02, SGX Centre 1,
Singapore - 068 804

"IIFL Finance Limited
Q4 FY2022 Earnings Conference Call"

April 29, 2022

MANAGEMENT: **MR. NIRMAL JAIN – MANAGING DIRECTOR - IIFL FINANCE**
MR. RAJESH RAJAK – CHIEF FINANCIAL OFFICER – IIFL FINANCE
MR. MONU RATRA – CHIEF EXECUTIVE OFFICER – IIFL – HOME FINANCE
MR. VENKATESH N – CHIEF EXECUTIVE OFFICER – IIFL SAMASTA FINANCE

Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance Limited Q4 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you and over to you Sir!

Rajesh Rajak: Good day everyone, I am Rajesh Rajak – Chief Financial Officer. On behalf of team IIFL Finance, I thank all of you for joining us on this call. I am accompanied by Mr. Nirmal Jain - our Managing Director, Mr. Monu Ratra - CEO - IIFL - Home Finance, and Mr. N Venkatesh - CEO - IIFL - Samasta Finance. I will now hand over to our Managing Director to comment on the overall economy, revenue, strategy and plan.

Nirmal Jain: Good afternoon, everybody, I am Nirmal and a warm welcome to our earnings call. In terms of macro environment, currently the global news is not very encouraging because we keep hearing about inflation rising in most of the large economies, war which is happening in Russia and Ukraine, also the resurgence of pandemic and the fear of that, but amidst this the good news is that India is going to be the fastest growing economy in the world this year and I do not think there is too much of any contradictory views on that, and given that investors cannot ignore this regardless of their views on the short-term valuation.

Having said that inflation, particularly CPI, which has been holding around 7%, 8% may taper off a bit given that the monsoon news is good, expectation is that there will be a normal monsoon this year. Despite that, given that this interest rate increase in most of the countries around the world, most analysts would expect about 50 to 75 basis points interest rates high in India in this year. Domestically, the growth has not been strong, but it appears that it might pick up now in the remaining part of the year. Increase in interest rate will impact growth and the key factor to watch is obviously the oil prices, but we hope that under the circumstances, it is really unlikely that oil will go significantly higher than $100. On top of that, I think liquidity in India has been good and also Central Bank keeps committed to make sure that liquidity remains benign and that basically will make sure that the growth momentum continues in the economy.

Coming to our company, if the economy does well then there is a strong growth for credit as well and the segments that we operate in. We have seen that the credit environment has improved significantly in terms of not only demand, but also collection efficiency and the repayment. Last quarter, we have seen that the loan AUM has grown by 10%, which for one quarter is very significant.

As you are aware that our strategy has been critical where we are basically focusing on our physical network of branches as well as digitizing and trying to get efficiency as high as possible with the digital infrastructure as well as digital innovative ideas that we implement.

Our branch network grew last year by 730 branches, which required us to add about 8,500 people. After we achieved some size, I think this has been the fastest ever growth in branch network as well as people and we have done this keeping in mind that there is tremendous demand of credit, there is an opportunity because many large NBFC's have consolidated and the demand is picking up with the economy. We already had a good network of branches and we can see that the branches will make a breakeven in 12 to 18 months' time and it makes tremendous sense to invest in the branch network. We are fully aware of the way world is growing in terms of digital potential, or the way digitally loans can be processed and disbursed and our DIY loans, which are completely untouched or without any human intervention have been growing very strongly. In last quarter, they doubled over previous quarter and were close to Rs. 260 Crores in DIY disbursements. These are focusing on MSME sector. We have seen that this digitally applied process and disbursed loan is showing superior credit behavior as well and the risk adjusted price is very favorable. We expect a stronger trend to continue here. We all saw quite a few digital transformation initiatives, so we are very excited about the opportunities that digital technology is offering to complement the branch network that we have and make sure that we can leverage our branch network better and make the breakeven even faster and also profitable.

Last quarter despite our existing investment in new branches, out of 730, 175 branches went live in last quarter itself and our Opex over quarter-on-quarter basis increased by almost about 50 Crores, primarily for new branches, people, and also the marketing spend that we will do to create awareness about these new branches. Despite this, we are very happy to report that our profit after tax has been all-time high for a quarter close to Rs.330 Crores, our ROE is close to 21% and ROA is close to 3% and now with the expanded network, we can look at accelerated growth and this year our network growth will slow down probably. Maybe this year and next year we will pause and our focus will be on making the expanded network more productive.

In terms of regulatory environments, there have been very positive development in microfinance industry. MFI industry has been very badly hit by COVID and the regulatory changes of removing the cap on pricing as well as give more flexibility in terms of the size of loans and the types of loans will make the industry healthy and we also have a tremendous opportunity to make sure that our subsidiary company, which is in microfinance and among the leading players in microfinance now grows well with these kinds of regulatory changes.

In terms of reported NPA, RBI circular which came on November 12, 2021 had an impact, but on a like-to-like basis our NPAs have improved. If we ignore the impact of circular then our GNPA would have gone down from 2.5 to 2.3, but in the last quarter in terms of circular the impact was just about 0.3% and the reported NPA is at 2.8. But in this quarter the impact is of the full quarter and that is about 0.9% and therefore the reported GNPA is 3.2%. Our collection, credit terms and processes will align to the new RBI requirement over next two to three quarters and we believe that these GNPAs will come back to our long-term trends of around 2%.

With this I hand over to Rajesh, our CFO to take you through the details of our financial results and then we will answer your questions.

Rajesh Rajak: Thank you. Our pre-provision operating profit which was Rs.670 Crores for the quarter, which is 14% up on a year-on-year basis and 10% on a quarter-on-quarter basis. Full year's PPOP was Rs. 2,346 Crores, which was up 17% on a year-on-year basis. This was also impacted by our large investment in new branches otherwise our total income was up 23% on a year-on-year basis. Our loan AUM now stands at Rs. 51,210 Crores, which is up 15% on a year-on-year basis and 9% on Q-on-Q basis. In fact, the loan AUM for core products have grown faster at 20% year-on-year and 10% in just one quarter to Rs. 47,669 Crores, driven mainly by small ticket home loan, gold loan and microfinance loans. We disbursed close to 2 million new loans during the quarter across our core products, 40% higher than the previous quarter. 94% of our loans are retail in nature and 69% of retail loans are PSL compliant. You should note that gold loans are not classified as PSL loans under RBI regulations. The large share of retail and PSL compliant loans are of significant value in the current environment where we can sell down these loans to raise long-term resources. In line with our capital optimizing strategy 38% of our AUM is either assigned securitized or under co-lending as of March 31, 2022. During the quarter, we tied up with SBI Bank and Union Bank of India for co-lending of home loans and gold loans respectively. We added over 730 new branches and 8500 more people during the year. As a result, our cost to income ratio has increased to 40% in FY2022 compared to 35% in FY2021, but this will pave the way for accelerated growth in the future. Our annualized ROE for Q4 stood at 21.1% driven by annualized ROA of 2.9% despite large investment in growth causing spike in operating cost. Our capital adequacy ratio was at 23.9% and tier one stood at 16% well above the statutory requirement of 10% and 15% respectively. Quarterly average cost of borrowing declined by 28 basis points year-on-year and 14 basis points sequentially to 8.6%. Our gross NPA stood at 3.2% and net at 1.8% as of March 2022, this includes the impact of RBI notification dated November 12, 2021. With implementation of ECL model under Ind AS, the provision coverage on NPAs stands at 123%. Collection efficiency has improved compared to the previous quarter across all products during the quarter. Now a brief update on the liquidity, we raised Rs. 5,954 Crores through term loans, bonds, refinance, etc., out of which Rs. 1,464 was raised by refinancing including Rs. 1,200 Crores from NABARD. In addition, loans of Rs. 4,284 Crores were securitized were assigned during the quarter. Our cash and cash equivalents and committed credit lines from banks and institutions at Rs. 9,499 Crores was at an all-time high. It is adequate to meet not only all near-term liabilities, but also to fund the growth momentum. We have a positive ELF whereby inflows cover or exceed expected outflows across all buckets. In the quarter, we also brought back USD50 million worth of overseas bonds at par which were funded by corresponding ECB loan of maturity which was not less than the maturity of the bonds bought back in line with RBI regulations. This will reduce the cost of transaction by approximately 225 basis points. During the quarter, we also successfully raised long-term funds of USD68 million from ADB to improve financial access to affordable green housing and lower income women borrowers.

A brief update on our digital strategy. We continue to focus on digitization and analytics to improve customer experience and enable a convenient one-stop shop for customer's credit and investment needs. During the previous quarters, we had mentioned about digital DIY initiatives for disbursement through WhatsApp and app. More than 27,000 customers have been on-boarded till date under these initiatives. The DIY disbursement in Q4 were more than double at Rs.265 Crores as compared to the previous quarter. Our gold loan at home initiative we started the year ago saw significant traction with disbursements rising 52% Quarter-On-Quarter to Rs. 209 Crores for the quarter. Our Jhatpat Home Loans, our pan India product for instant home loan disbursement continues to do well as 100% of the home loans now are from Jhatpat loans app. The corresponding percentage in Q4 of the previous year was 94%. IIFL loans app is being increasingly used for various transactions by customers and has been especially beneficial at this time, which gives customers ease and convenience of access. We have more than 2.1 lakh average active users on the app for the month of March. With this, we come to an end to the update. We are now happy to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the now Saptarshee Chatterjee from Centrum Portfolio Management Service. Please go ahead.

Saptarshee Chatterjee: Hello Sir, thank you for the opportunity and congratulations on a good set of numbers. My question is on the home loan part. Can you give some color on the salaried and non-salaried part how the GNPA status would be?

Monu Ratra: Hi! Good afternoon. Our salaried home loan composition is almost about 62% and about 37% to 38% is self-employed. If we look at the AUM level, our salaried GNPAs are hovering around 1% and the non-salaried ones are at about 1.9%.

Saptarshee Chatterjee: Okay, but overall, it is around 2.6% right Sir?

Monu Ratra: Yes, that is at the loan book level; I was referring to at the AUM level. I was referring the loan at the AUM level, the one which you are seeing is at the loan book level because we have almost about 32% to 34% of our book is off book. If you want to see the color of the entire book, then these are the numbers.

Saptarshee Chatterjee: Understood Sir. Very helpful. Actually, I just wanted to understand that last many quarters we have been maintaining around 100% provisioning on the stage three assets of MFI. This quarter we have seen slightly lower provisioning, so is there any change on provision policy.

Rajesh Rajak: As you know under Ind AS, the expected credit loss is based on the probability of default and the loss given default, so as the economy is opening up and based on the past three years data and the model basically throws up this number that is required to have a lower provision. So as we know that post demonetization there was stress in the MFI portfolio, hence in the earlier numbers that were used in the model the demon period was being included and now as we are going more into the future, the earlier periods are being excluded from the model and the newer periods where collection is increasing better in the recent months is what is being factored into the model.

Saptarshee Chatterjee: Last question is on the home loan; we have disbursed around Rs.1000 Crores of home loan in the co-lending model. Can you provide us the NIM and maybe expected ROA on this co-lending part of home loan?

Monu Ratra: We have seen that typically the spread in these co-lending models is ranging anything from say 1.5% to 2% in the absolute interest rate, which we see at the moment and we have had a pretty encouraging last quarter in co-lending and we hope to scale it up much more this year.

Saptarshee Chatterjee: Just to clarify the co-lending part that you mentioned around I think close to Rs.3000 Crores in AUM, this is I think 80% of that is mentioned separately right, the other 20% will be included in the on book?

Monu Ratra: Yes, that is right.

Saptarshee Chatterjee: Okay Sir, thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Sharaj Singh from Laburnum Capital. Please go ahead.

Sharaj Singh: Hi! Good afternoon, Sir. My question was, large part of the growth is coming from the assignment book, so what is the sustainability of the partnerships there and how are we looking to grow the loan book itself?

Nirmal Jain: Actually, we have been doing this for many years now and with many banks we have a long-term understanding as well that every quarter we give them certain assets and over a period of time as the co-lending grows, assignment will decline, but I think at least for the near future the co-lending will be gradual increase. But co-lending and DA together will continue to form higher and higher part of our off book, which is 38% currently and growing.

Sharaj Singh: Do we have an internal number; I mean what percentage of our book will be off book?

Nirmal Jain: Probably 40% will be off book over next 12 to 18 months.

Sharaj Singh: How are we looking about the on-book?

Nirmal Jain: See, what is happening, supposing we do co-lending so 20% remains on book, so that goes in on-balance sheet loan as well. So in the co-lending model, there is commonly agreed credit policy with the Banks. Based on that if the loan is issued, they will take it and they also check it on a real-time basis as well as risk factors. There are some loans, which we are comfortable with and banks are not, so that remains in our books. Certain loans which are not in line with banks policies, but we still want to do it then they will remain in our books.

Sharaj Singh: The second question was how do we look at the NIMs going forward and the competition? Are we seeing increased competition due to which possibly the NIMs could be lower going forward given the interest rate hike we expected?

Nirmal Jain: Actually, different products have a different structure of NIM and competition and have vary proportion in our AUM mix. So, gold loan till last quarter the NIMs were under tremendous pressure. So if you look at our yield of gold loan, last quarter alone has fallen by 1% over previous quarter, but this quarter, starting from April we are seeing that competitive pressure is eased because everybody has realized that this is a game which does not help anybody. If you see the advertisement of gold loan last quarter we will see those 49 basis points, 59 basis points per month which are now all disappeared. So we expect the NIMs to improve in gold loan and the business is of the type where there are small loans that we cater to where we should be able to easily maintain the yields. On a weighted average basis, we do not see any challenge at least in foreseeable future maintaining around 7% NIM.

Sharaj Singh: How do you look at the scenario in the MFI space going forward?

Nirmal Jain: In the MFI space, RBI has come up with a very pragmatic policy structure and that will revive the industry. The risk is always there in any industry, but it has to be priced in. Earlier RBI had capped at a 10% of above your cost of fund and MFIs have a huge operating cost as well and whenever there are cyclical or sporadic problems like cyclone or demonetization or Covid, obviously this industry suffered a lot. But what happens that typically I have a feeling that most of the industry players will improve their pricing by 200 to 300 basis points as they should easily absorb the losses and the extra provision or write-offs. Besides the relaxation from say up to 25% you can do non MFI loans, the income-based criteria, the cash flow-based amount of loan. all those things will allow it. What was happening earlier was, suppose it is a good quality customer, you could not lend more than 25000, but now you can lend Rs. 1 lakh that absorbs your cost as well as credit risk both very well, in any case the borrower would have been borrowing from say four microfinance companies earlier. There are many changes that RBI has done, which I think will help this industry improve significantly in this year and next year.

Sharaj Singh: Would it be fair to say we will be more aggressive in this space going forward?

Nirmal Jain: We have been quite aggressive, so last year we expanded our network very strongly and now I think we need to make the network productive, so we have already done the aggressive bit and I think if you are able to spread the network then there will be a very strong growth this year.

Sharaj Singh: What I meant was would we lose in our underwriting given that we can price the risk correctly now?

Nirmal Jain: No way, because I do not think you can compromise your underwriting norms in this case whatever it be the flexibility on price. The pricing flexibility is again competitive pressure as well because it is not that in any district there is only one microfinance company. I think there is a little bit of flexibility that has come. We will only take care of the risks which are there in this business in any case.

Sharaj Singh: One last question, how do we look at the credit cost going forward in general and especially in the MFI and the business loan segment?

Nirmal Jain: Last quarter our credit costs were very badly impacted by MFI and business loan because if you recollect January and February were again COVID hit months and RBI's NPA recognition has become much stricter. I have been saying this, but it has not happened till now, but going forward we do see that the credit cost will go down.

Sharaj Singh: Could you give any guidance as to what can we expect on the credit cost?

Nirmal Jain: It is very difficult to say, see the long-term historical trend before COVID was around 100 to 125 bases so if you take a higher share of microfinance and business loans it would be conservative to say at least they should stabilize around 150 basis points and not more.

Sharaj Singh: On an annualized basis Sir?

Nirmal Jain: Yes.

Sharaj Singh: If I can squeeze in one more question. You mentioned the pricing will be a factor of competition. So are we seeing more competition than we initially would have planned for in the different verticals we would be catering to? Especially in the housing, gold and MFI space. I mean, are we seeing more competition than we would have foreseen?

Nirmal Jain: No, actually the competition is not more. Competition is changing. If you see in housing there were DHFL and Indiabulls which were more aggressive. There was also Reliance Home Finance. Those players are not there now, but obviously the existing NBFCs or other banks have become little more aggressive. I think India has a huge untapped market and in terms of pricing like our home loan on-boarding interest rate is 9.5%, we are fairly competitive. The competitive intensity, I do not think is increasing nor decreasing. It stands where it was. If you see microfinance standalone, then our ROE profitability is much below any acceptable level and that is about the industry as well, so that has to resuscitate back to a normal level where industry can sustain and grow, so that is the change that will come with these policy changes.

Sharaj Singh: What I was trying to understand is a large part of our growth is actually come from the gold loan space and so now we basically have a Rs,16,000 Crores book there. Could we see the growth maybe a little tapering down here in the gold loan?

Nirmal Jain: See, in gold loan, again the growth depends upon gold prices because that determines how much of money can be borrowed again given quantity of gold. Right now, many people think that most Central Banks probably might try to increase the gold reserves and that can have upward pressure on gold prices or at least they will remain stable. In that scenario, I think it will continue to grow at around 15% YoY or so, but if gold prices were to come down for any reason, then obviously this segment of business will be impacted or this industry will be impacted. If we recollect 2013-2014 when the gold prices crashed obviously all gold loan companies had seen shrinking in their balance sheet, but it bounced back after some time. It is more function of gold prices, but if the gold prices remain, then the gold tonnage in our vault should grow in line with the AUM.

Moderator: Thank you. The next question is from the line of Savi Jain from 2Point2 Capital Advisors. Please go ahead.

Savi Jain: I just wanted to know more on this fair value changes. What does it comprise of in this quarter? So there is a significant decline in both Q-o-Q and Y-o-Y, so what is the composition of this?

Nirmal Jain: Mostly in the earlier quarter it was IPO. Basically as an NBFC we have also QIB segment to apply in an IPO so some of the IPO's where our research is comfortable, we apply and typically we sell on listing or immediately in a very short period after that. So that was the income that used to come in fair value changes. But last quarter probably there were no IPOs or we did not apply in any of the IPOs. So other than that there can be some investment, but currently we do not have much financial investment in the balance sheet.

Savi Jain: On the MFI business it looks like we had a loss this financial year is that true?

Rajesh Rajak No we did not have a loss. So approx. Rs.49 Crores profit for the year.

Savi Jain: And was there a loss this quarter in the MFI?

Nirmal Jain: No. So this quarter is like we have breakeven of ~Rs.5 Crores in MFI

Savi Jain: And I thought that there is some Rs.300 Crores which has moved out of restructured book is that because of write-off or because of repayment?

Nirmal Jain: No, it is because the restructured time frame was over mostly. So the overall restructured book which is Rs.938 Crore has come down to Rs.376 Crore which in a way is good because there was the risk of GNPA. So in case of construction and real estate now that there is the repayment of one loan. But in MFI, what you see is that restructuring is over mostly so the time period is over.

Savi Jain: And another thing was this on the standalone financials there is quite a significant decline in interest income Q-o-Q, what is the reason? Is that because of more assignment, there is quite a bit of decline?

Rajesh Rajak: Yes, that is also a reason another reason is that in Q3 we had IPO funding so there is interest income from that and if you remember in Q2 and Q3 the standalone interest income was higher than Q1 because there was income from the covered bond trust, these are structures that we had created in 2019. So what happens is that is a standalone entity, as long as the trust is there the incomes are there, now when the trusts are concluded, the appropriation of accumulated profits in those trusts, which were held in trust for the benefit of NCD holders, it was transferred to the standalone company in Q2 and Q3. So as there was no such transactions in Q4, you see a decline. So combination of all these three things the trust, the IPO financing, as well as the higher assignments during the quarter. Does it answer your question?

Savi Jain: Yes, so that you talked about the trust thing which was there in Q2 and Q3 did that also lead to additional profits in Q2 and Q3?

Rajesh Rajak: Not on a consolidated basis.

Nirmal Jain: So on a consolidated basis it does not make much of a difference it gets locked off.

Savi Jain: You mentioned about this 150 bps credit cost, guidance is that does that also hold true for the immediate next financial year.

Nirmal Jain: Yes, I think that should I mean unless something unexpected happens that should hold for next year.

Savi Jain: This because we continue to provide for in the wholesale book and MFI also?

Nirmal Jain: So wholesale book we have provided last year. This year it has been mostly MFI and MSME.

Savi Jain: Last quarter also we provided for whole sale right.

Nirmal Jain: I think last quarter significant part of it is MSME and MFI. Wholesale book also we provided, incrementally a little bit, but most of it has gone to MFI. So if you see MFI and MSME book would have taken brunt of around Rs.200 Crores in last quarter and there will be some normal incremental provision which will continue in all businesses.

Savi Jain: This was only because of the third wave or because all the provisioning has been.

Nirmal Jain: It was combination of two things, third wave as well as RBI circular dated 12th November 2021.

Savi Jain: So basically we should revert to a normalized credit cost in the next financial year. There is some reduction in securitization Q-on-Q, what is the reason for that?

Nirmal Jain: We did more assignment. Normally what happens assignment or securitization you can only do one of the two things with the assets you have.

Savi Jain: I think in securitization we need to provide some kind of first loss in segment that is not the case right.

Nirmal Jain: In securitization you get a lower interest rate so you get a better rate from your point of view because you are selling the asset. But there is some margin maybe around 5% which is given by way of bank fixed deposit and that becomes like a first clause guarantee, which we have reduced from the capital when we calculate our capital adequacy.

Savi Jain: In assignment that is not the case?

Nirmal Jain: Assignment that is not the case

Savi Jain: So all loses are borne completely by the banks?

Nirmal Jain: You are securitizing it at 7.5%, we will assign at 8.5% so banks will factor that in the price itself.

Savi Jain: But if bank's experience is not as per expectation, then they are maybe either reluctant to do more assignments or they may increase their cost for future asset?

Nirmal Jain: Yes, that is true. But normally, what happens is that they have a very detailed process and they actually use rating agencies to find out the value or the losses probability and rating agencies basically go through general data and given their experience they have a very good fix on this.

Savi Jain: And one last question you mentioned that MFIs will probably increase their lending rate by 200, 300 bps, so what is our increase? I mean I am sure it has already been done.

Nirmal Jain: It will vary from region to region and from stage to state. So you know in some cases earlier our margins were less than 10%. In some cases, it was 10% so it again depends on state to state because at some states, where risk is higher you will do price more, so there is no one rate which is standard across the country.

Savi Jain: But can you like give an indicative like blended increase. Is it like 100 bps.

Nirmal Jain: So there will be some increase from 100 to 200 basis points at least.

Savi Jain: And that literally flows into the ROA, basically the profit of the business increases significantly.

Nirmal Jain: As I said, if your business makes Rs.40-48 Crores profit, that is not even 4 to 5% ROE. And our case will be like a typical representative of industry as well. And that is what RBI also recognized that there has to be risk based pricing because you cannot throttle the pricing when the risk is not controlled so the whole industry should hopefully would recovery with this.

Savi Jain: And one question if I may squeeze in. There has been an increase in NIM but it seems counter intuitive, given that we mentioned in gold loan you would have seen a reduction in NIMs this quarter. So how is there an increase in overall basis?

Rajesh Rajak: If you see the proportion, the gold loan has been the highest increase for the quarter as well as microfinance and digital finance, and all these loans have yields above the average yield, so yes while individual product may decrease, the fact that these products are high weightage and these product's yield is higher than the average you get a bump up on the average yield in the total.

Savi Jain: Okay that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Tejas Mehta from Omkara Capital. Please go ahead.

Tejas Mehta: Hi, thanks for taking my question and congrats on a very good set of number. Sir couple of things I would like to know. One is co-lending has started quite well. Now for us, almost Rs.2000 Crores net addition is a very good number. What sort of guidance can you give on co-lending for FY2023?

Nirmal Jain: So I think this has been our focus, so this will continue to grow and very difficult to give guidance because as a concept, co-lending in India is little new. We have been working with multiple banks so we will try to maximize it, but it is difficult to give guidance at this point in time.

Tejas Mehta: Right, can the current fourth quarter run rate be maintained on a quarterly basis.

Nirmal Jain: I think that run rate can be maintained.

Tejas Mehta: Okay got it. Sir the other question is how long will it take to see this gross NPA reporting be normalized after entire impact of RBI norms has taken in?

Nirmal Jain: I think it should take about two to three quarters.

Tejas Mehta: Essentially can we see further increase in the NPAs ?

Nirmal Jain: I think increase should not happen because this quarter was full quarter impact.

Tejas Mehta: Okay, so things should largely be stabilizing at the current numbers from this point onwards.

Nirmal Jain: Now it should go down gradually and over a period of two to three quarters or maybe by end of this year we should see it coming back or conversing with the earlier norms.

Tejas Mehta: Got it. Sir the third question which I would like to understand was on the opex side. So you said that this year you will go slow on the expansion front and any number of the number of branches that we are looking to add or are we going slow now.

Nirmal Jain: Last year we added about 800 branches, this year we will add about 250 to 300 branches. 300 branches will get added because there are quite a few locations where things are already in pipe line.

Tejas Mehta: So, opex as a percentage of assets was about 4.4% in the fourth quarter versus earlier this used to be below 4%, so do you think over the next four to six quarters this number can go back to 4% or will stay there.

Nirmal Jain: Certainly can go back to 4% or lower.

Tejas Mehta: Okay, got it and finally you have applied to RBI for credit card. Can you throw some light what is the game plan, what are you looking to do over here.

Nirmal Jain: RBI has now have taking application from NBFCs for credit card and PPI license. We have a base of more than 8 million customers so this is a tremendous opportunity if the RBI gives approval to have these products in our portfolio.

Tejas Mehta: What sort of plans you have is there anything on the drawing board right now, how will you approach this segment and what kind of scale up of the business you would like to see in this business.

Nirmal Jain: It is very initial time. There is tremendous opportunity because in India debit card penetration is almost 80% but credit card penetration is just about 3%. So if you the smaller towns the credit card is still not there with many people. Because when you say 3 to 4% credit card penetration is really, really low. So again like any other product this product has not reached the smaller towns in India where we have a good network so we see a great opportunity here.

Tejas Mehta: But there is a fact, while these risk adjusted returns are good. It is a product which is unsecured in a small ticket sized product and time and again we have seen banks making significant losses every now and then especially during crisis times.

Nirmal Jain: I agree, so the credit underwriting process has to be strong but I agree that this business has that cycle and lot of people have seen high profit and high loses so one has to be cautious.

Tejas Mehta: Great and just one last question Sir, on the home loan side. There is a significant spike up in the RBI related new norms related home loans this quarter. Typically it is supposed to be a very safe segment and usually we will not see such a spike.

Nirmal Jain: I do not think we have losses.

Monu Ratra So, if you see the home loan side, although these are because of the RBI norms, but almost 80% of it is in 30 to 60 DPD and other 5 to 10% is in the 1 to 30 bucket so it is only 10% which is in the 60 to 90 DPD bucket. I think it is just a change of habit which has come into play and I think in next two quarters we should be pretty good. If you would have taken away this impact aside actually our GNPA have got down in home loans from the last quarter. So I think it is more of a behavioral thing and we should not see any loses there.

Tejas Mehta: Thank you so much.

Moderator: Thank you. The next question is from the line of Vikash Agarwalla from Bank of America. Please go ahead.

Vikash A: Thanks for the opportunity. Just couple of questions. One is on the disbursement and the AUM growth guidance, can you share what is the guidance of disbursement and the AUM growth for different products for FY2023?

Nirmal Jain: Normally we do not have any specific guidance but last quarter we grew by 10% quarter on quarter but under normal circumstances we can grow by around 25% YoY in terms of AUM.

Vikash A: Understand thank you and my second and last question is on the dollar bond side. You have made some purchase on dollar bond side very very recently and you mentioned in the presentation that this will reduce the cost of funds by about 225 basis points for that transaction. Can you explain the dynamics on what are the details, what is leading to this saving and related to that question is again how should we look at the overall maturity? I think still close to more than 300 million outstanding maturing next year. How should we look at what is the strategy in refinancing or repayment ?

Nirmal Jain: You know the dollar bonds are quoting at a dollar rate which is much higher than our cost of funds in the rupee terms. So supposing dollar bonds yields at 7 to 8%, then we can calculate the forward contract also and then buy them back. But the RBI regulation do not allow us to buy back under normal circumstances. We can buy back only to the extent that we are raising another dollar loan of a maturity not less than the residual maturity of the dollar bond. So we had an opportunity to raise $50 million ECB so we basically used that money to buy back and then based on the maturity there was another $2 to $3 million reliefs so we brought that also back. So we are trying to negotiate another transaction of $50 million from ECB loan then probably we would buy back more.

Vikash A: And for the remaining maturity what is the strategy as of now? How are you thinking about it?

Nirmal Jain: That is what I am saying although we have a significantly higher domestic liquidity we also have significantly higher dollar bond, USD300 million outstanding.. But I cannot use rupee resources to buy back the dollar bonds so we are looking for opportunities to borrow in dollars and then we can use that to buy back the dollar bond.

Vikash A: Just one last small question is for this ECB loan what is the all in borrowing cost?

Nirmal Jain: I think as our CFO pointed out it is steering at about 200 to 225 basis points all in for the particular transaction.

Vikash A: Understood. Sure thank you.

Moderator: Thank you. The next question is from the line of Pratik Chheda from Guardian Capital Partners Plc. Please go ahead.

Pratik Chheda: Thanks for taking my question, so my question is overall on the gold loan side? What we have seen is that we have gained quite a bit of market share in NBFC but at the cost of lower yields, so it is fair to say that we are sort of focusing on higher ticket loans where the risk of default is slightly lower? Also could you just give a breakup of the loan book, so how much would it be above 1 lakh at the time of disbursement and how much will be below 1 lakh at the time of disbursement please?

Nirmal Jain: So our average ticket size Rs.70,000. So it is not that we are focusing on a large ticket loan but we also look at cash flow and the purpose of the loan. So to some extent what we are saying is right, that we will probably try to have a lesser risk versus the yield. We have to balance the two, and having said that last quarter and last couple of quarters, there have been tremendous pressure because of lot of competition activity in terms of interest rate, especially in gold loans. It appears that in this quarter it has settled down and most of those kind of lower interest rate schemes have been withdrawn.

Pratik Chheda: Fair enough so are you picking up the similar cue that since the economy sort of opening up, banks are again sort of focusing on the non gold part of their AUM rather than on gold loans?

Nirmal Jain: Banks continue to focus on gold loans but that is one of the products for them and they can cater to only certain types of customers and certain size of customers. So there is a huge market beyond banks.

Pratik Chheda: Sure my second question is on business loans. So the collection efficiency sort of at the 97% levels in this quarter also. so just wanted to know how much of this business loans book is secured and what is your understanding and how much will be the ultimate loss and default versus what is secured?

Nirmal Jain: So, last quarter again January and February two months were affected badly by COVID. Secondly the unsecured is about one third of the book but there our interest yield is much higher. So on like to like basis the GNPA would have come down from 6.6% to 4.2% QoQ if you take the way we were recognizing GNPA earlier. I think long term you should see unsecured losses can be around 2.5% to 3% but that is properly taken care by the price that we have for this, so those are typically at 21% to 24% interest rate. Whereas in secured is it depends on the size of the loan but it can down to 14% to 15% also.

Pratik Chheda: Thanks a lot.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche CIB Centre Private Limited. Please go ahead.

Abhiram Iyer: Congratulations on a good set of numbers. Again apologies if this is a repetitive question and maybe I need a bit more clarification on this, but in terms of the GNPA increase due to the RBI norms given the fact that the recognition is a point in time process rather than over a period of time process what has changed between December till March that the recognition norms have affected our numbers? Broadly speaking should not all the effect be captured in the December number because it is a point in time calculation?

Rajesh Rajak: Abhiram, the circular came in on 12 November and the first set of EMIs that would have fallen due would be around 5th December, so there is only one set of EMIs which would have slipped into next bucket which had to be collected whereas for this particular quarter, you would have all the three months and including the three or lower months on the previous quarter as well. So anything that would have fallen due in December for example if you do not collect would have become an NPA of March. Whatever was not collected in November would be NPA in February. So if you think of it in terms of a funnel, the amount that is required to be collected in the absolute terms that will enable it to escape the NPA classification is much higher in this quarter as compared to what it was in last quarter.

Nirmal Jain: I will explain that how this new norms work. Supposing that your monthly installment is say Rs.1 lakh so for you to become NPA you will have missed three installments in aggregate Rs.3 lakh right.

Abhiram Iyer: Yes?

Nirmal Jain: Now earlier supposing out of this Rs.3 lakhs you collect Rs.1 lakh, then you say I have collected the first month so again it is 60 days dpd not 90 days dpd and it is not GNPA. Now what RBI has said that to take it out of GNPA you have to collect all three months installments or Rs.3 lakhs in this example, so you cannot say that I am collecting the first month, second and third month are pending so it keeps rolling over. That is how it will impact us.

Abhiram Iyer: Got it Sir so broadly speaking there is a three-month delay in the applications what you are saying which means that effective all the norms and application has been taken care of by March?

Nirmal Jain: That is right. So earlier it was one installment. Now it is three installments so all three yes.

Abhiram Iyer: Got it Sir. The second question was something which was conveyed at the start of the call. You have mentioned that basically for home loans NPA for salaried was 1% GNPA on AUM level and 1.9% GNPA for non salaried and whereas the NPA for on book portfolio is around 2.6% so is there a concern that better part of the book is sort of being assigned or involved in co-lending versus what is actually been on our book?

Monu Ratra Not really. If you see this firstly what numbers I had stated were like to like without these new RBI norms that this 2.6% is inclusive of the RBI norms taking into account. The differential is very marginal so it is nothing significant. The difference between both of them is about 30 to 35 bps.

Abhiram Iyer: Got it Sir. Thanks a lot. Thanks for the clarification.

Moderator: Thank you. The next question is from the line of Vishal Singh from ICICI Securities Limited. Please go ahead.

Vishal Singh: Thanks for taking my question. I have two question from gold loan business? Sir I just wanted to ask that you mentioned that in April gold financiers have raised the rates? Have we also raised our gold loan bit and if yes by how much? What would be the lowest rate scheme right now?

Nirmal Jain: We have not raised the rate, but we have withdrawn the schemes which were like absolutely low prices like 49 basis points per month which is 6% per annum. All the gold loan companies cost of fund is more than that so those schemes now have been withdrawn so effectively the yield which has gone down by say 1% should at least bounce back to the earlier level and over a period of time they will further improve.

Vishal Singh: Got it so for that our rates will remain safe but for other players?

Nirmal Jain: The way the industry was operating is that you offer something at a very low rate and if there is one default or slight delay, then increase the rate to the next level, basically jumping scheme on their part so we also had one product like that which we have now taken back so I think the yields should improve by 100 basis points broadly. That is what my estimate will be.

Vishal Singh: Understood and secondly if I look in this quarter like most of the growth has come of the back of co-lending book and gold AUM, which I am assuming that where we are offering lower yields so now that you are mentioning that the lower rated schemes are gone so will it have any impact on the growth or do you feel that there is still like good demand in the market and since that the competitive intensity from the pricing point of view is gone so there will be no impact?

Nirmal Jain: Impact will not be there from that point of view, but typically March quarter will be higher growth and may be in this quarter people go on leave during April and May, so I am talking about last 10-year trend so not only for us but all gold loan companies. So there is some slight variation in the volumes but that is more because of seasonality and not because of the rate changes.

Vishal Singh: Understood and just last question have we auctioned gold this year and how much and what will be our like auction to loan book? I think we used to give it earlier in the presentation?

Nirmal Jain: Auction normally keeps happening. Typically, I think it will be around 20 to 25 basis points, but I do not have the number at this point in time, but it is not very significant. It is a small number.

Vishal Singh: Understand. Sir just last question? What will be our typical ROA or ROE in gold loan business only?

Nirmal Jain: Normally it is difficult to calculate ROA and ROE on a fully allocated basis because most of our branches go for multiple products, but it is something very similar to the company average, which is also the ROA closer to 3% and ROE is closer to 20%.

Vishal Singh: Got it understood. That is all from my side? Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital Partners LLP. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity? Sir you mentioned our new normalized credit cost is at 1.5% is that right because earlier you used to say 1% is our normalized credit cost?

Nirmal Jain: Yes, that is right. So new expected credit cost we should try and conservatively be at 150 basis points annualized by the end of the year because now the MSME and microfinance has grown a little bit. But you are right historically prior to COVID we used to have around 100 basis points or maybe little less than that also.

Deepak Poddar: So what you are implying is that FY2023 we are looking at 1.5% credit cost is that what you are implying?

Nirmal Jain: Yes. If everything remains normal.

Deepak Poddar: Understood and something on the cost to income ratio now 40% how do you see cost to income ratio in FY2023?

Nirmal Jain: It was 35% prior to this expansion so it will gradually slide back to that level.

Deepak Poddar: Gradually what next two to three years would be a fair assumption?

Nirmal Jain: I am saying may be by one and a half to two years.

Deepak Poddar: So two years we are looking to go back to 35% kind of a cost to income ratio?

Nirmal Jain: That is right.

Deepak Poddar: So ideally if your AUM is growing at 25% and cost to income is declining your PPOP growth should outperform your AUM growth right that would be a fair assumption to make like if 25% AUM growth our PPOP can grow at 30% rate?

Nirmal Jain: Absolutely.

Deepak Poddar: Understood. That is about it from my side. Thank you very much.

Moderator: Thank you very much and that was the last question from today. I now hand the conference over to the management for closing comments.

Nirmal Jain: Thank you so much and if you have any more questions you can always get in touch with our investor relations or CFO department. Thanks for being patient and have a good day ahead.

Moderator: Thank you very much. On behalf of IIFL Finance Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.