Dhanvarsha

August 20, 2021

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

Scrip Code: 540268

Dear Sir/Madam,

Subject: Transcript of the Earnings Call

In furtherance to our letter dated August 17, 2021, please find attached herewith the Transcript of the Earnings Call held on Monday, August 16, 2021 at 5:00 pm. We request you to take the same on record.

Thanking You,
Yours faithfully,

For **Dhanvarsha Finvest Limited**

DHANVARSHA FINVEST LTD.

Fredrick Pinto
Company Secretary
A-22085

Dhanvarsha Finvest Limited
Earnings Conference Call
August 16, 2021

Moderator: Ladies and gentlemen, Good Day and welcome to the Q1 FY22 Earnings Conference Call of Dhanvarsha Finvest Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand over the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

Anuj Sonpal: Thank you. Good evening everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Dhanvarsha Finvest Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the first quarter of the financial year 2022.

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

Let me now introduce you to the management participating with us in today's earnings call. We have with us Mr. Rohanjeet Juneja – Joint Managing Director, Mr. Karan Desai – Joint Managing Director, and Mr. Sanjay Kukreja – Chief Financial Officer. Without much delay, I request Mr. Rohanjeet Juneja to give his opening remarks. Thank you and over to you, Rohan.

Rohanjeet Juneja: Thank you, Anuj. It was an interesting quarter, to say the least. Despite the lockdown, in April and May Dhanvarsha completed its capital raise of Rs. 658 millions in April and clogged its highest disbursement quarter with two-third of its being led by gold and small business loans backed by a first loss default guarantee. April and May saw slower disbursements volume of 99 million and 94 million respectively while June came in at a strong 241 million translating to 434 million for the quarter. Dhanvarsha is best and up from 48 million a year ago. We opened 8 experiential centers in June anchored around our gold loan product taking the total count to 24 and had over 163 financial inclusion stores at the end of June. The company also issued its first covered bond backed by gold receivables in the quarter which was rated A by Care and subscribed to over 1,000 retail investors. Profit before tax was Rs. 17.5 million versus 6.9 million in March 2021 and 6.4 million in June 2020. This represents 154% quarter over quarter and 174% year over year growth driven by strong revenue growth of 157%. Strength in revenues comes from 286% growth in interest income as disbursements rose from 48 million in June 2020 to 405 million in March 2021 and 434 million in June 2021.

I am very happy to disclose that we have had a strongest month of disbursement in July at 413 million which is almost equal to what we have done in all of June quarter. 63% of this came from gold loans and 18% from loans backed by an FLDG. These FLDG partners are thoroughly rated by a credit committee and has deep expertise in technology and inherent sourcing strength in business and education loans. The first was default guarantee provided to Dhanvarsha ranges from 10% to 100%. We are doing business with 11 such partners today and will be live within three partners by the end of September. At present 16% of our loan book is backed by an FLDG and we expect that to go up to 20% to 22% in the future.

The loan book at June end was Rs. 1.31 billion versus 1.04 billion in March and 415 million a year ago. This represents 212% year-over-year growth while our borrowing count was up by 2,354% to 10,995 customers up from 448 in June 2020. The average ticket size of loans declined by 31% to 0.12 million in the quarter. This shows the granular nature of the loan book and is truly demonstrative of the micro, small, medium enterprise borrowers we are serving. Gold loans today comprise 32% of the loan book and in a significant development we have recently tied up with Central Bank of India for a large Rs. 10 billion co lending partnership where they will hold 80% of loans on their balance sheet while we will retain 20%.

This is a win-win for both entities and a substantial development for Dhanvarsha as it promotes scale with capital efficiency for our balance sheet. Many of you will want to know how there is a predetermined 10% hurdle rate that Central Bank of India gets on every loan for its 80% lending share. Dhanvarsha gets to keep everything in access of the 10% of the hurdle rate on Central Bank of India 80% contribution for Dhanvarsha originating servicing and collecting on these loans while we also retain 100% of the economics on our 20% lending share. For Central Bank of India as well this is a win-win since 10% is much higher than the cost of deposits and market borrowing with no cost of origination and servicing incurred by them.

On the distribution side Dhanvarsha today has 28 experiential centers anchored around our gold loans product and by September end we expect to have 34 such centers that will be contributing to daily disbursement volume. We have 305 financial inclusion stores today versus 163 in June and expect to have close to 475 by end September. As mentioned in our previous call this is a zero CAPEX distribution channel for Dhanvarsha which further enhances our sourcing strength to MSME.

On the lending side of our balance sheet our networth is up to 1.59 billion and the promoter group along with key management will be in infusing another 150 million in the next 12 to 18 weeks for conversion of warrants into equity share that were issued in November 2020. This is well ahead of the 18 month timeline that we have to infuse money which is until May 2022. Our debt to equity ratio today is 0.7x and we aim to continue disbursing at the same pace of 400 million per month as we have done in July. While we are still a young organization and a robust build out mode which involves both CAPEX and OPEX profit growth take center stage with a tied laid on expenses. Management is deeply incentivize with ESOPs making them owners in Dhanvarsha.

In fiscal 21 the company incurred large expenses for the build out of experiential centers and also our digital lending platform catering to MSMEs. Part of these investments are starting to bear fruit with our cost-to-income declining to 61.5% from 76% in March 2021 and June 2020. On the pertinent topic of risk and impact of the lockdown on our portfolio the percentage of loans to the essential good segment which comprises of health, wellness, technology, convenience and medical stores, food and drink etcetera is about 40% of the portfolio. Gold loans are 32% and loan backed by FLDG are 16%. With our relentless effort on collections we have been able to report 100% plus collection efficiency including prepayment, part payment and early repayment on gold loans excluding part repayments and early repayments on gold loans collection efficiency was just shy of 90% which we are confident of taking to 90% in August and September.

Gross NPAs were 2.87% versus 4.83% in the previous years. Net NPAs were 89 basis points versus 2.23% last year. It is noteworthy that in our gross NPA pool of Rs. 37.3 million 30.4 million or 81% come specifically from 7 LAP loans originated from September 2017 until September 2018. These loans are now in run off mode and excluding these LAP loans gross NPA would have been 69 basis points. We are making all efforts to recover on these 7 legacy loans that are part of the NPA bucket with Dhanvarsha now being eligible for SARFAESI we are confident of a quicker turnaround on some of these loans.

Let me now turn the call over to Karan to walk you through our tech plans and go to market strategies.

Karan Desai: Thank you Rohan. Good evening ladies and gentlemen. On the previous call we have spelt out certain material projects that the company has invested in to meet our vision of digitally enhancing a scale of financial inclusion in India. It is noteworthy that from our inception until today our tech platform has clogged in over 375,000 digital applications. As we now gear up to our substantially higher volume and enhance our digital footprint a big firm has in the last few months advise us on a comprehensive technology stack and architecture.

Let us now walk you through our plans and our go-to-market strategy on the digital front. A number one being Dhanvarsha is all set to launch Money Rabbit which is a digital omni channel credit health builder digital lending platform which will be powered by a very own alternate data engine focusing on the MSME segment and the blue colored workforce. This is due to launch in early November 2021. A platform is being specifically designed to cater and add value to the lower middle-income population wherein they get access to customize cards that can be used with a flexible wallet and a bill payment system along with an affordable credit line available on the coal.

Our alternate engine captures real time data which is self-evolving, robust and develop completely in house by a passionate technology, data science and risk analytics team. This engine post getting access to data captures accurate insights about consumer behavior giving us an edge over bureau data which is slightly dated. Hence, using an alternate data engine to analyze and price loans for consumers is predictive and proactive as opposed to be reactive. Credit will now be affordable and not at the typical pay day rate as offered by a number of competing digital lending platforms. Along with lending a wallet a platform will also include a credit health check to it.

The biggest advantage of this service along with other modules is to provide an entire ecosystem or the consumer credit health and financial wellness along with the ability to borrow pace, save and invest all in one app. Money Rabbit empower our consumers with multiple cash backs and rewards which should be featured and marketed systematically to increase the daily app usage and retention rates. This will be linked to their repayment behavior and discipline and hence will become self-fulfilling cycle in due course of time. The second big technology assets that Dhanvarsha is currently working on is an MSME and bluecaller focus Neobanking platform.

While we are in the business of providing loans to the small customers it is imperative that we look at serving this customer base with financially inclusive experiences which do not start and end simply with lending. The main objective of Dhanvarsha Neobank is to offer such a level of seamless consumer experience that most traditional banks cannot offer at this point in time. Hence our Neobank will be a Fintech partner of a traditional bank and will provide core banking services to the under-bank segment of the population. In this type of partnership and engagement we as a Fintech company will utilize or rapper around various products and services of our partner bank and cater to the small MSME and blue caller customers.

We will be obsessively customer oriented to provide highly customize and personalized services to them. Our loan product will be seamlessly available to the same platform. We have already launched Dhanvarsha.co in the previous quarter which is a digitally empowered loan sourcing platform which enables us to on board and cater to customers with minimum manual interventions. We are happy to share that Dhanvarsha.co has already started contributing to the monthly disbursement volume of the company with a very low cost of customer acquisition.

Last but not the least we are also deploying a cutting edge fully integrated loan origination and management system to enable seamless on boarding underwriting servicing, monitoring and on time collections given the large volume of business of the company proposes to underwrite over the next five years. The phase one of this project is expected to go live in early September. We highly recommend visiting our website and suffering through the lending hand head and heart section to watch videos on our digital and financial inclusion journey. It truly embodies what we are building in Dhanvarsha. With this I will hand it back to Rohan for closing comments.

Rohanjeet Juneja: We would like to conclude by saying that as we scale up from being a small business into an institution the company will very soon be onboarding a season veteran with over 20 years experience in three large financial services institutions as Chief Operating Officer of Dhanvarsha. Furthermore we have also the privilege of Mr. Porter Collins joining Dhanvarsha board of directors from July 31st. As many of you know Mr. Collins is a globally renowned investor with over 22 years experience investing in global financials. Mr. Collins and his fund were famously featured in the book and the movie the Big Shot for accurately predicting the US housing crisis and the ensuing global crisis of 2007, 2008. With this Dhanvarsha board today comprises of 5 independent directors, one promoter director, one non-executive director and two executive directors. These efforts will go a long way as Dhanvarsha continuous on its journey of creating a scalable and comprehensive financial services institution catering towards MSMEs in India. With this, we will open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Kapoor from Centrum Broking. Please go ahead.

Amit Kapoor: My question is regarding the gold loan portfolio what we have seen is that some of your competitors are saying some increase in auctions and there is some kind of pressure building up on that book also we understand that banks are really aggressive in that segment now, what are you guys seeing and how different it is from others are seeing?

Management: So, I think what we essentially do differently with our gold loan business is that we are fairly conservative with the way we value the jewellery. So, we do not take very aggressive LTV calls. Secondly the LTV that is also on the value of the jewellery minus the making charges. So, our natural margin and cushion is build into the overall LTV from that standpoint. Apart from that every branch has two value in each location so that any piece of jewellery whether it is for a Rs. 70,000 loan of our 5 lakh lakh loan is always valued twice minimizing the chances of error and any loan that is above 5 lakh which is anyway a miniscule percentage of our portfolio currently is valued third time with an external impaneled the valuer. So we have double and triple checks and balances to make sure that we do not go wrong on this front and last but not the least we do our mark-to-market everyday on the portfolio that we have. So from that standpoint we are fairly confident that we will not face the challenges and some of our competitors who have taken more aggressively calls are currently save.

Amit Kapoor: Just a follow up I am not sure if I saw this in the presentation, but have you disclosed any kind of auctions that you would have done on the gold portfolio or you have not done?

Management: So far we have done only three small auctions which was I think total loan value of sub 10 lakh on a 50 crore plus portfolio on the June quarter. So there were only three pieces of jewellery and in all cases we recovered more than what was due on the loan account and the balance is refunded to the customer.

Amit Kapoor: Just one more question I have you guys have really seen a good improvement in your asset quality and you deal with really no ticket, small, SME kind of borrowers, just want to understand because I thought that June quarter was really bad for India as far as second wave is concerned and you guys are located more in Maharashtra which was very badly impacted, how did you guys manage us I am just trying to understand as in how the asset quality has seen such a strong improvement given that the condition on the ground were not that great?

Management: So there are two or three things that relate to the improvement in asset quality. One is most of the asset quality that Dhanvarsha has experience comes out of the LAP, vintage loans where were underwritten between September 2017 and September 2018. The book growth have slowed down post September 2018 until December 2019 which place the company is very good stand today that is number one. Number two most of our growth that came in post December 2019 as well came in the smaller ticket essential good segment which includes chemists, Kirana stores, clock traders, shoe retailers anyone who depends on daily cash flow generating businesses for their livelihood that is number two and number three a lot of these businesses were opened during the lockdown as well and most of our growth from March 2020 has come from the gold loan product and with partners who do give us an FLDG. So, with these FLDG partners which is about 16% of our book today we do have a clause where they will buyback loans if there are 75 days DPD and if they do not buyback those loans then the FLDG gets invoked on, very please to say that until today we have not invoked on one FLDG in 14 months of doing this business. So a combination of these factors have led to an improvement in asset quality.

Amit Kapoor: I just want to check so much of the legacy book of the LAP is still remaining or it is already totally run down?

Management: No so it is not only rundown today we have about 18% of the outstanding loans today is still in LAP and the total POS is about 27 crores.

Amit Kapoor: And do you have like a view as to by when you want to run it down or you will just want to maintain it a certain percentage of the loan book or you have a clear path or running it down completely?

Management: So what we are doing with the LAP book right now Amit is that as and when possible at least with the regular accounts as they approach us for balance transfer out at lower rates we encourage them to do so and we facilitate our mobility. As far as our delinquent customers are concerned given that we have collections in house completely, we are working on a wall putty to make sure that either we assist them a liquidation of the property and repayment of the loan or regularization of the account and whatever performance possible. So, over the last few quarters we have got in a number of some delinquent accounts out of our book by adopting these two strategies.

Moderator: Thank you. The next question is from the line of Irshan, Individual Investor**.** Please go ahead.

Irshan: I see that we are expanding our branch network very fast, so can you just talk about how much is a CAPEX on each branch and what are we budgeting by the end of this financial year?

Management: So, currently we are expanding in two ways. One is of course the gold branches which we are opening 4 to 5 a month. The current CAPEX per unit is about 12 odd lakhs and that essentially compromises of the world the security system, scanners etcetera, your modular furniture and IT the civil work is fairly simple, but what we try and do rather than building it like any typical competitors branch before calling them experiential centers where the look, the field and the services that we offer the customers are at least three or four notches of what all our competitors are doing. So from that standpoint we would encourage you to actually visit one of our branches to get a field for yourself. As far as expected run rate is concerned over the next 6 to 7 months we will continue growing that at a run rate of at least 5, 6 units a month on average and apart from this we are also increasing our footprint with the Dhanvarsha financial inclusion stores where these are the zero CAPEX business wherein what we do impanel small retail stores as franchisees of the brand we put our own signage, empower them with standees and other tech platforms so that they can start becoming sourcing partners for us in this journey. So we are already 300 plus such partners in the state of Maharashtra we will now be expanding into the MP market as well. So, from that standpoint the visible physical footprint of the brand will increase exponentially till March 2022.

Irshan: And what kind of growth in AUM are we expecting from this expansion?

Management: Like we said on the previous call as well we hope to finish the year closer to a 370 crore AUM number.

Irshan: If I can squeeze in one more question sir so what percentage of our loan originate from the channel partners versus our internal team sir?

Management: Channel partners have started contributing to business volume now that will pick up slowly. The large chunk of the business volume that comes in today especially from the branch network is all internally led.

Moderator: Thank you. The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Two, three questions one in terms of broad strategy over next two to three years in terms of scaling up the business once you say that close the book by at 370 this year maybe 500 next year, in terms of liability you are extremely good on debt equity today you do not have leverage, but over a medium term how you intend to build the liability side of the business that is the first question secondly on terms of technology now you enabled yourself as a Fintech firm, but adding more branches to grow business especially gold loan so in terms of tech what is the role of tech that goes into the firm for the next three years as you scale up these are the two broad questions?

Management: So on the liability side we have a very comfortable leverage ratio today at 0.7x were highly capitalized with the capital adequacy ratio of 94%. The pact at which we are disbursing on a monthly basis now we expect that to continue and our goal is to always be below 3x leverage. So, when we closer towards 2.5x we will then explore options as to what we need to do from a debt-to-equity standpoint, but the goal is to be always over capitalized until we reach a certain size at least. In terms of debt we have a 11 lenders on board today including the likes of HDFC, SBI, Bank of India, Central Bank of India, NABARD two of foreign lenders that have give us in NCD. Our goal is to continue expanding those relationship and to continue growing in the true MSME sweet spot which is with an average ticket size of 1 to 5 lakhs. So that is where we would be on the liability and asset side on the tech I will hand it over to Karan.

Karan Desai: So on the technology side we prefer calling ourselves a very strong tech enabled company and our physical infrastructure which includes a branch network gives us a significant edge in terms of controlling a cost of customer acquisition. Today most of the Fintech as you will see they won a considerable amount of money trying to acquire customers. The thought process even behind launching the Dhanvarsha NeoBank essentially was if we have over 100 branches of our own in the next 8 to 10 months and 100s and 100s of the small franchise partners who are already doing business with us. For us to be able to acquire customers not just for the savings or the current account products, but even for the liability franchise which includes the loans whether it is a personal loan, business loan or gold loan becomes substantially easier because of our reach on the ground. Secondly even in the traditional gold loan business for example nobody has ever leveraged technology at a branch level to improve the customer experience. So, we are doing two things essentially one is of course to improve the experience on site which we already do through state of the art branches, but now we are working on how we can enhance the experience by reducing a 30 minute disbursement time to a 15 minute to 20 disbursement time by allowing the customer to complete simple things like KYC, sending pictures of the jewellery etcetera through the technology platform itself before he actually comes in with a physical jewellery for final valuation and disbursements. So, we are not trying to compete with the core Fintech companies in the market today, but rather to build on top of our traditional business and leverage technology to make the customer experience better and a lot more sustainable and manage risk that as well.

Management: Praful just adding to your first question little bit more on the liability side I think one of the things that Dhanvarsha has done really well is we have been fairly patient before taking out external capitals so we took out external capital in the month of Jan 2020 from HDFC who came in as a first lender. We were fairly patient in waiting for getting the right capital at the right price. We could have gone out and taken money at much more expensive rates from NBFC which we refrain from doing. So, the goal is to continue making inroads with large lenders who see the inherent strength in our sourcing platform and provide us capital at a rate where it make sense for us to lent to our customers because ultimately at the end of the day the goal for us is to lend to our MSME customers also at an affordable rate where the journey is fairly good and we will continue trying to penetrate that large lenders especially with the PSU banks to get longer duration and cheaper paper.

Praful Kumar: One last if I may you guys have been an experience lot in India in terms of going businesses, but the challenge here becomes the collection, so can you talk about your collection engine as you scale up today how are you experiencing it in house it is outsourced, can you talk about collection engine today and it grows up the business scales up?

Management: Collections is actually one of the caller stones of the company and you know from a very small size when we were even sub 50 crores in size we started building the entire team in house. So the function today is led by gentlemen called Mr. Sunil who is a very experienced person in this field. He comes with experience of across institutions like Kotak Mahindra Bank, HDFC Bank and lastly with Capital First before it launched into IDFC. So, he is a lawyer himself by background and under him we have a team of feet-on-street collectors and team of lawyers in house as well. So, we use a combination of not just feet-on-street follows up with our customers, but even the legal tool extremely successfully to collect from the small customers whether it is the larger ticket erstwhile loan against property customers or the smaller tickets BL and PL clients. Gold is a fairly easy function to collect him because it is managed at a branch level, the security is extremely liquid and there are very rare occasions like I mentioned sometime a go as well where we have to auction only three pieces of jewellery which was sub 10 lakhs in value on a loan book of over 50 close today with 3,000 plus customers. So, on the gold side we are fairly well covered and the last part of our business which has been growing quickly since last year as well which is FLDG backed business where the entire owners of collections is on our partners we sit on a cash funded guarantee from them. So, today the collection effort internally is largely focused on the PL and BL loans that we do on a monthly basis directly in our balance sheet and of course as far as gold is concerned it happens at a branch level. So, collections is monitored centrally on a daily basis and we are fairly proud to say that even during extremely difficult times of second wave of COVID we still operated at 85% plus efficiency if you discount the foreclosures, part payments and repayments. So we do not believe in outsourcing our collections and as the new system rose out we will be also be integrating a collection technology stack into ensure that whether dashboard sending out of legal notices etcetera all of that is done digitally and we can manage scale much better.

Moderator: Thank you. The next question is from the line of Irshan Individual Investor. Please go ahead.

Irshan: If you can speak something about the unit economics of a branch, what are the current unit economics like average disbursement and average operating expenses?

Management: So, if you talk about a typical gold loan branch the average run rate today works out to be about 40 to 50 lakhs a month. Each branch normally breakeven at a branch level once it crosses about 2.5 crores of AUM. This branch once it hits an AUM about 4 crore also starts to cover the cost of the supervisory team that sits in HO. So a typical branch payback including the cost of your supervisory team should be about 12 months on the outside this will be in your metros of course once you go into the Tier 2 cities that 12 months becomes about 15 to 18 months because the rate of disbursement thee will be slightly slower as compared to metros like Bombay, Noida so and so forth.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Rohanjeet Juneja from Dhanvarsha Finvest for closing comments.

Rohanjeet Juneja: Thank you. In conclusion we would like to say while we are very proud of the business that we have built so far have survived the September 2018 crisis and having successfully survived the two lockdowns from COVID. We are very excited about the next lag of growth for us which will come from the Money Rabbit platform and from Dhanvarsha NeoBank. We will have a lot more to say about these two platforms on our next call when they will be live. So eagerly waiting to talk to you all more about that. Thank you all for joining the call and have a good day.

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