

August 14, 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 ended June 30, 2024, please find attached herewith transcript of the said earnings conference call which was held on August 7, 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Further, we hereby confirm that no unpublished price sensitive information was shared or discussed during the said earnings conference call.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

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“IIFL Finance Limited
Q1 FY’25 Earnings Conference Call”

August 07, 2024



**MANAGEMENT: MR. NIRMAL JAIN – FOUNDER & MANAGING
DIRECTOR, IIFL FINANCE LIMITED
MR. KAPISH JAIN – CHIEF FINANCIAL OFFICER - IIFL
FINANCE LIMITED
MR. MONU RATRA – CHIEF EXECUTIVE OFFICER -
IIFL HOME FINANCE LIMITED
MR. VENKATESH N – CHIEF EXECUTIVE OFFICER -
IIFL SAMASTA FINANCE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to IIFL Finance Q1 FY '25 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 sign an operator by pressing “*” then “0” on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kapish Jain – Chief Financial Officer, IIFL Finance. Thank you and over to you, sir.

Kapish Jain: Thank you very much. A very good afternoon, ladies, and gentlemen. Thank you very much for taking your time out to our Quarter 1 Fiscal '25 Earnings Call.

I have with me in this call Mr. Nirmal Jain – Founder and MD of IIFL Finance, and we also have Mr. Monu Ratra – CEO of IIFL Home Finance, we have Mr. Venkatesh, who is the CEO for IIFL Samasta Finance, and the rest of the Management Team as well.

I will now hand over the call to Nirmal to give his opening remarks. Nirmal, over to you.

Nirmal Jain: Thank you, Kapish. Good afternoon to all the participants and good morning to people who are joining from UK or some other geographies.

In terms of updates, maybe I will start with an update on the RBI, because that has been the most significant event in our Company, and I am sure that most of the investors will be anxious to know more about it.

So, the RBI order had come on 4th of March where it ordered to cease and desist of sanctioning and disbursing gold loans and assigning and securitizing as well. However, the order allowed us to continue servicing the gold loan portfolio through usual collection and recovery.

The supervisory concerns by RBI were there in the Press Release done by the RBI, which related to deviations in assaying and certifying purity at the time of loan sanction and auction, the cash transactions above Rs. 20,000 of loan disbursements, the standard auction process recommended by RBI in Master Direction was not followed. And then there were issues related to loan-to-value breaches, which again were linked to the purity certified at the time of sanction and at the time of auction.

So, in terms of Company's response, we have ensured that there's a full compliance, all the remedial actions have been taken. And we have made sure that we have full adherence to not only the findings in the inspection and the order, but also all the RBI directives and guidelines which are there in the Master Direction for NBFC. And we have also done the root cause analysis for the deviation to make sure that there's no recurrence of these issues.

Further, we have also done management strengthening. We have hired a few people at the CXO level, and we are in the process of hiring few more to strengthen our senior management team and also the entire assurance organizations. So, that means that even at the mid-level and low-level we are enhancing the resources.

The assurance organization comprises risk, audit, and compliance. A special audit was commissioned by RBI and that has been completed on May 27, a couple of months ago. And we believe that it was satisfactory, and verified and validated all the compliances that we had done. And the same was again verified by the internal audit team and internal auditors of the Company and reviewed by the Audit Committee. And that compliance certificate also has been submitted to RBI, as required.

Impact on the business has been very significant, as you have seen in the financial numbers. And then there's a disclosure of gold loan AUM currently, which is as of August 5th that is as of day before yesterday. So, the gold loan AUM which was a little above Rs. 26,000 crore has fallen to Rs. 12,162 crores, so it is less than half. More than a million customer accounts have closed their accounts and safely taken their jewellery. And as you are aware that many of these loans were co-lending arrangement with the banks and the direct assignment to the banks, so we had paid about Rs. 13,500 crores to banks from the liquidation and realization of these loans.

A very important thing here, from a longer-term perspective is to note that, while more than half of the gold loan assets have been liquidated, funds have been repaid to banks and jewelry has been returned to customers, without any issue of any significance about customer satisfaction, asset quality or our operations. That demonstrates that there's a robust asset quality in operations. This kind of trial by fire is faced very seldom by any financial institution. But I think this is a true test of the quality of assets that only when you start liquidating do you know whether the assets realize or not.

In terms of future outlook, we are committed to make sure that there is full compliance in terms of letter and spirit, and we are engaging with the RBI and communicating with them. And we expect that RBI will lift the restrictions in a short time from now. The RBI processes are involved and therefore we cannot have any certainty of when this will happen. But we anticipate that to happen at an early date. We are dedicated, obviously, we will not only survive but come out stronger from this in terms of our systems, our processes, and our risk management, as well as our compliance. So, all our businesses are continuing. We have not retrenched any employee, nor have we shut down any branch. So, we continue to be confident and optimistic about our resumption of normal business as soon as possible.

Other than this, in terms of environment, as you are aware that economy has been doing well, but a very brief overview of all our businesses:

Gold loan business has suspended at this point in time; however, gold prices have been firm.

And secondly about our business loan and digital finance, our entire focus is now on MSME, and that business has been growing well at a steady pace. And on the small base it is growing

quite well. And we believe that from a long term perspective our branches can contribute significantly to the business. So, in this time period of last five months, we have trained our branches to handle this business as well. It's a long process, but it's on the way.

Our home loan business has seen a slack quarter in April to June. But the government has come out with very strong support and impetus for this business. They allocated significantly higher resources for affordable housing. So, we expect that this business, which had a relatively slow growth rate in last one or two years, will also have stronger growth. And we are fully prepared to seize the opportunity.

In microfinance, business has also been impacted by the squeeze of credit lines by banks in the wake of orders on our gold loan business. Also, in the last quarter due to election, the asset quality has suffered, and the provisions and losses remain at an elevated level in this business in this quarter also. But this is in line with the industry trends at this point in time. Maybe Venkatesh will speak a little more about it later in our Q&A, where there's an impact of guidance by MFIN also on the maximum number of loans which the customer should take, and the amount is linked to the income.

With this, I hand it over to Kapish to take you through the Financials in more granular detail. And then we can have the Q&A. Thank you.

Kapish Jain:

Thanks a lot, Nirmal. Our Investor Presentation is on our Website and it has now further been detailed out by Company as well, so you can get a differential view as well there. However, just to highlight:

At a consolidated level for the quarter Q1 FY '25, the profit after tax before non-controlling interest was Rs. 338 crores, down by 28% Y-o-Y and down 21% on quarter-on-quarter basis, for reasons that Nirmal highlighted earlier. We recorded pre-provision operating profit of Rs. 647 crores, down 18% Y-o-Y and down 35% on quarter-on-quarter basis.

For this quarter, consolidated loan AUM grew by 2% on a Y-o-Y basis. If I dissect this by Company, the degrowth in IIFL finance standalone in particular was around 25%. However, both Housing Finance Company and Samasta entity recorded almost like 20% growth Y-o-Y.

On a consol basis, we degrew by around 12% on quarter-on-quarter basis, touching AUM of around Rs. 69,610 crores.

If I further dissect the AUM on our core products, which is largely Microfinance, Gold loan, Home loan, Digital finance and LAP, there we grew Y-o-Y by around 4%, and degrew by around 12% on quarter-on-quarter basis to Rs. 67,853 crores. The core loan AUM now in comparison is **97%** of the overall AUM for the firm as a whole.

Our gross NPA stood at around 2.2% and net NPA was around 1.1%, which is up by around 40 basis point and 4 basis points respectively when compared to the same period last year. With the

implementation of the expected credit loss under IndAS, provision coverage ratio on NPAs stands at 128%.

In line with our capital optimization strategy, we have done DAs and co-lending in some of our other businesses, and our off book stands at around 35%, which is the aggregate of assigned and co-lending book as of 30th June. The assigned book stood at around Rs. 14,609 crores, which is down by 17% Y-o-Y, and 11% Q-on-Q. And the co-lending assets stands at around Rs. 9,532 crores, which is up 6% Y-o-Y. Our quarterly average cost of borrowing decreased by 2 basis points on Q-on-Q basis and is up by 2 basis points Y-o-Y.

Just to add to what Nirmal highlighted, we additionally also repaid to our capital market lenders close to around Rs. 2,239 crores. So, in aggregate the entire repayments since the embargo to all our lenders have been around Rs. 15,700 crores. In addition to that, we also raised funds in aggregate to around Rs. 2,886 crores through term loan, bond, refinance. And also assigned around Rs. 1,769 crores of other loans.

Our cash and cash equivalents including committing credit lines from banks and institutions was around Rs. 6,853 crores adequate to meet not just some near-term liabilities but also to support growth in some of the other businesses which continue to operate. We have a positive ALM whereby inflows cover exceeds the outflows across all buckets, and with the infusion of capital that we raised in the month of May of '24, our net gearing stands around 2.8x. Supported by that, our capability NBFC entities stood at around 27.8%, for HFC it was 46.5%, and for Samasta it was 27%. Each of them much higher than the minimum threshold of 15% laid down by the regulator. Our overall annualized ROE stood at around 10.3% while ROA was around 2.3%. The basic earnings per share for the quarter was around Rs. 7.2.

With this I finish my update on the Financial Numbers and open the floor for Q&A, which you can then jointly address. Thank you very much.

Moderator:

Thank you very much, Sir. We will now begin the question-and-answer session. The first question is from the line of Abhijit Tibrewal from Motilal Oswal. Please go ahead.

Abhijit Tibrewal:

I had three questions, first one on gold loans. Nirmal sir, you had shared in the last Quarter's Earnings Call that in case we do not get RBI's approval, or the ban is not lifted, then maybe we will look at sourcing loans for other banks acting as BCs. So, just wanted to check, I mean, while you have already said in your opening remarks that we are very confident that this ban should be revoked sometime soon, are there other proposals also which have been evaluated? That is on gold loans.

The second one again a related question, I mean, gold loan, while there is a ban, we are also seeing slower disbursements in LAP as well as MFI. MFI you said there is some liquidity problems which are there after there was a ban, so just trying to understand, because when we talk about MFI, the kind or the extent of stress or pain that we are seeing in the sector for some of the other listed MFI players has not shown that kind of a stress on our balance sheet as yet. So, if Venkatesh sir can comment on different states, some color there on the MFI business.

And lastly, in terms of the ARC transactions that we have done during this quarter, if you can just kind of throw some light on that from the CRE book? And out of the total quantum of SRs that we have on the balance sheet, what is the provision cover that we have on the SR? Those are a few questions.

Nirmal Jain:

Thanks, Abhijit. So, gold loan, proposal is evaluated, but then we discovered that banks have a little longer process to appoint BC which starts with RFP and then you submit a proposal and then there's evaluation. So, we have started participating, I mean, we will participate in it. But we have all along been engaging with RBI and we believe that if in a short term we are going to restart our lending and co-lending, then it may be unwarranted distraction to the resources as well as process. Because once you start a BC, then obviously banks will expect certain commitment in the volume. And from a commercial point of view, that may not be as viable for our cost structure as the other proposals are, because of the BC structure you get a fee, and the banks probably typically will keep the entire interest income and the margins. So, that is the first question that you had.

The second question is about LAP. So, that was linked to MFI, because a significant part of our LAP was also done by our microfinance Company. So, the LAP which have a very small ticket is done by HFC as well as MFI. But as I said, the MFI in particular has faced relatively higher resistance from banks in terms of opening of credit lines. In fact, after this embargo, most of the banks have basically frozen the credit lines, even the existing ones. And there has been a few trickles here and there. But in case of HFC, we have a higher capital adequacy and also the co-lending and the DA is continuing. And that basically is making sure that we do not have the constraint there as much. But the LAP is also impacted a little bit. Okay, the first part is seasonally slack quarter in the last quarter when you are comparing with Q-on-Q is a significantly better quarter. But they are part of the LAP business, the micro-LAP what we do through MFI has also been impacted.

The third question about CRE and the SRs valuations in the provision. Yes, we have actually transferred a couple of large CRE cases to ARC. And what our experience is that from a long-term point of view that may be a better way to manage these exposures, probably because 90-day income recognition norm for real estate developer and project becomes difficult. Because even once they default, then it goes into NPA and then it's very difficult to do the incremental loan and sustain the project. Now, unlike banks, we really cannot have a DSRA or a debt service reserve account. And therefore, these exposures will be better managed through an ARC structure. In terms of SR provision, the way SRs are valued, and this is the industry practice in line with the standard accounting is, there is a valuation done every quarter by the ARC. And that's a fair value based on the realizable value of the SRs, and that's the value that we take in our books. So, there is an increase or decrease, that comes into fair value line item in the profit and loss account.

Yes, I think I just responded to all three questions. Can we move to the next line, Abhijit, do you have something more?

- Abhijit Tibrewal:** Sir, just wanted to have some more color from Venkatesh sir as well in terms of the sectoral stress which is there in the MFI space today. I mean, not quite seeing that same stress in our book as yet. So, what is the view which is there? I mean, yesterday also there numbers were reported and they talked about very high leverage building up at customers' end, customers having more than five lenders lending to them. And that proportion of such customers were more than four, five lenders has actually shot up significantly in the last 12 months. So, what is our view on this? Thanks.
- Venkatesh N.:** Good afternoon. I mean, in terms of if you look at recently, the guard rails have been announced by MFIN in terms of number of lenders and what would be the total outstanding per borrower. But if you look at what we have done internally is, we fixed up this very early. I mean, we did it in January itself in terms of, we bought in some kind of control. We looked at the credit score of customers, and we started implementing. I think we were one of the first ones to implement the, taking the credit score of the customer to lend to a customer. And, we have also started looking at the rule-based engine which has actually been underwritten. There was some certain stress in certain pockets because of elections and continuous rain and certain aspects of it. We have in a very few states like Rajasthan, MP and Orissa have been showing a different color. But we have been able to hold good is because we were able to implement certain things early in the third quarter of last year.
- Nirmal Jain:** Also, we have relatively lesser exposure to Punjab, which has been more impacted.
- Abhijit Tibrewal:** What is happening is, I mean, in this quarter when numbers have reported, what was just restricted to Punjab until last quarter is getting much more broad based. Like Venkatesh sir said, Rajasthan, MP, Orissa are also some of the states which were flagged off yesterday, states which are highly impacted or states with no stress compared to other states in India.
- Nirmal Jain:** That's right.
- Moderator:** Thank you. The next question is from the line of Rajagopal Ramanathan from Sada Khush. Please go ahead.
- Rajagopal Ramanathan:** Just one question, and I would appreciate comments from the management on this. A few years back you sold your vehicle financing business to one of the other NBFCs. That business had significant issues, subsequent to the other NBFC taking it over. You have now had a situation wherein the gold finance business has seen an embargo imposed by RBI. Sir, what are the learnings that the management has drawn from these episodes? And can you afford any similar accidents in any other business lines? Thank you.
- Nirmal Jain:** Thank you, Rajagopal. So, first of all, the commercial vehicle business that we sold, and that was sold in the beginning of I think 2019 sometime. And the diligence and the payment terms are also over a period of more than a year that obviously showed that we had full confidence in the asset quality that we demonstrated to the buyer. Unfortunately, the COVID happened after that and that is when the asset quality would have deteriorated for the buyer. But that should not have any relationship whatsoever to the kind of business that we did, and the asset quality of the

business when we sold it. So, just first a clarification for the commercial vehicle business that we sold, because we were very transparent, we were very upfront on what the quality of asset is. And obviously, there was no deviations from what we represented. But with the unfortunate circumstances of COVID happening a few months later, that is something which is not in either our control or the buyer's control.

Secondly, coming to gold loan business. So, if you see the asset quality, as I said in my opening remarks, that is like maybe unprecedented in the history of financial world that a million customers have taken their collateral back and the money has been paid back without any single issue. Because if there's asset quality issue then obviously if more than a million are redeeming their loans then that will throw up, I mean, that will come up and obviously you cannot hide it beyond a point. So, that again is testimony to the fact that our asset quality, our credit underwriting, and our collection processes are absolutely robust.

Now the learning from this is that of course you have a diversified book, and the compliance has become a much more significant issue now or much more significant aspect to take care of. But I would like to say that whatever we are doing in terms of the violations that have been identified by RBI were industry practices, they were done by other gold loan companies as well. Now in terms of extent or in terms of what are the reasons for we being the Company to be penalized for this, I do not have answer to this. But at the same time, I understand, I agree, and I with all humility I accept that there's no excuse for any compliance violation. There were deviations, and we are committed to make sure that we rectify them, and we also make sure that they do not recur.

Rajagopal Ramanathan: And I hope sincerely that we do not end up hearing such incidents in any of the other financing businesses, because ultimately that has significant ramifications on the confidence of lenders, the confidence of the regulator and everybody else with respect to your ability to conduct any funding businesses going forward. I hope that is well understood within the management.

Nirmal Jain: There's no doubt about it. But in the same time, in the recent past, regulatory action has happened against many regulated entities. So, this is something which has been in a way an industry wide awakening of the regulated entities. Maybe sometimes I will take an analogy of a traffic signal, that if you travel abroad, then normally nobody violates the traffic signal. But in India, people basically take it in a very different way. And obviously if somebody has to enforce the rules very strictly, then he would pick up one or two and make an example of that. But at the same time, if everybody follows the rules, then it becomes a level playing field and it becomes very easy to comply with that.

I can take an example further if you really want to. Supposing you are disbursing cash more than Rs. 20,000, everybody else is doing it. Now if I follow very strictly the guideline and this thing, then I will lose all the customers because customers will walk to the other gold loan branch and say, big deal, you are not giving it, I am getting from somewhere else. But what has happened is that after the action taken on us and then there was another circular from RBI, at least to my knowledge, everybody has stopped now giving above Rs. 20,000 in cash.

- Rajagopal Ramanathan:** I understand that. I hope the right lessons are taken. That's all.
- Nirmal Jain:** Absolutely. I think the right lessons are about compliance, which has to be strictly enforced. And that's what I said that we are strengthening our organization, we are making sure that our compliance becomes the top priority of top management starting from me. And that basically the communication goes down the line to all the branches and employees. So, we have taken number of steps, Rajagopal, to make sure that these things do not recur. And I think we are fully committed to that. That much I can assure you.
- Moderator:** Thank you. The next question is from the line of Agam from RSPN Ventures. Please go ahead.
- Agam:** I just had one question. I was going through the numbers shared by you. While we understand that gold loan book is under embargo, however, the loan AUM growth in home finance book and the MFI book is not that great either. So, any reasons for stagnation in the AUM in both these books?
- Nirmal Jain:** No. So, as I said that the 1st Quarter is seasonally slack, and also due to election there are many days are lost and the activity also comes to a bit of a slowdown. I really have not compared with the peers in both these sectors. But I would suspect that a similar trend will be there more or less. We have been little bit impacted also by the reluctance in the bank basically sort of holding back on the credit for other businesses as well. But that thing is also evolving and changing, so slowly we are seeing that the resources are becoming available, our co-lending and DA in other businesses also are continuing.
- Monu Ratra:** So, I just wanted to share with you that if you see Y-o-Y the AUM growth is 22%, for the quarter-on-quarter it looks flat because usually the Q4 are pretty spiked, and I think we are almost in line with our expectations for this year as well.
- Nirmal Jain:** Yes, thanks. Monu I would agree with that.
- Agam:** So, that's true in the home loan, however, MFI book has degrown in fact, if you look quarter-on-quarter.
- Nirmal Jain:** Yes, MFI has been impacted. And MFI, if you see the industry also has been a little volatile, so that also turned us a bit more cautious. And we have to really see how the industry and the credit is evolving here, because last year there were a lot of major changes done by RBI in terms of the loan amount, liberalization as well as the rules which are set in. So, I think the industry is passing through that phase. But hopefully, the sector has a tremendous contribution to make to the economic growth, so we are very optimistic on the long-term prospects of MFI as well.
- Moderator:** Thank you. The next question is from the line of Murthy Nagarajan from Tata Mutual Fund. Please go ahead.
- Murthy Nagarajan:** I have only one question. What I wanted to know is that you are showing in this quarter you have collected Rs. 2,886 crores. Rs. 2,886 crores disbursement which has happened to you. Can

you give us some color about how much has come from banks and who are the guys from whom we have been able to borrow?

Nirmal Jain: You are saying Rs. 2,886 crores of borrowing, or resources? What is it? Kapish, just give him that.

Kapish Jain: Murthy, I will come back to you on this later.

Management: I think the Rs. 500 crores, the ECBs that we have taken from Fairfax, plus we have some that we raised from LIC Housing Finance. But we are going to come back to you with details on more. And Kapish, is the right issue also included in this? Or the DA transactions are part of it?

Kapish Jain: DA is separate, DA is Rs. 1,769 crores.

Nirmal Jain: So, in the normal course maybe we can get back to. But I think broadly these are the details of Rs. 500 crores from Fairfax through ECB route. Whereas from LIC Housing Finance and then some small bank borrowings that we got from PSU banks as well.

Murthy Nagarajan: So, we wanted to know who are the guys who are lending to you right now, so that will give us some confidence.

Nirmal Jain: So, there are a number of them, it is not that, but they have trickled down. So, supposing we had applications of Rs. 500 crores, we got Rs. 100 crores from some of them. But as I said that after the initial hold back slowly that's coming back, the resources are becoming available.

Kapish Jain: Few names I can quickly tell is Bank of India, Bank of Maharashtra, State Bank of India, and then we can talk more as well.

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

Nidhesh: The first one, the gold loan, what is the count of employees that we have and versus what it was prior to the RBI embargo? I want to understand, let's say if the embargo is lifted in a quick span of time, how quickly we can come back to the previous disbursement run rate that we were doing?

Nirmal Jain: So, we have not retrenched or sacked anybody. So, what is the natural attrition is there. And when the embargo is lifted then we can come back very quickly. That is what we have prepared for.

Nidhesh: But is it reasonable to expect that the employee force would have declined by 30%, 40%?

Nirmal Jain: No way, 4%, 5%.

Nidhesh: 4%, 5% only?

Nirmal Jain: Yes.

Nidhesh: Secondly, if you can also give some color on the microfinance collection trends in Q2 in July, how the trends are? And any data point around customer leverage, what percentage of customers would have more than more than or equal to five loans product?

Nirmal Jain: Venkatesh will take this.

Venkatesh N.: Yes. I mean, in terms of the collection trends, July actually it dipped a little bit, but not significantly. But if you look at, it's not the case with, see, once the RBI has given us the thing of relaxation in number of lenders, we are not seeing the same stress. Suppose if we have properly assisted the customer and we have given a loan, it does not mean that all the customers who have borrowed from five lenders are defaulting or something like that. That's a wrong note to pick up. But anyway, now we are also looking at that guard rail of MFIN, all of us are adhering to that. We are following a four-lender rule that only four lenders can exist to a customer and with a maximum cap of Rs. 2 lakhs. But there were very odd reasons for July being a spiked month, rains across the country. And we had, I mean, difficulty in collection going, our people going. And in many cases, we also give a little bit of leeway for customers if they get into, I mean, they are not able to generate their income during that period of time. But it's not a significant decrease in July.

Nirmal Jain: Just to elaborate a little bit more on this. RBI relaxed the number of lenders. So, you can have more lenders than four. Now what Venkatesh is trying to say is that a customer may default with two lenders also and may not default with six lenders also. So, the more important thing is to do the credit assessment and underwriting properly. Nonetheless, the self-regulated organization MFIN has basically guided, which is not a regulatory guideline but it's an association guideline, which may not legally binding, but we still abide by that, and we follow that being a part of the association. And they basically suggested that there should not be more than four lenders to a customer. Typically, this can be a good safeguard, other things being equal. And that the loan amount should not exceed Rs. 2 lakh to one overall. So, they put an overall guideline which we are also now complying with.

Nidhesh: Sir, this Rs. 2 lakh is including all borrowings of the borrower or only microfinance borrowing?

Nirmal Jain: Microfinance borrowing at the household level.

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

Anusha Raheja: Sir on home finance subsidiary, this quarter was there any increase in the NPAs? Because if I just compare the credit cost, the provisioning line item for this quarter, it was, I believe Rs. 60 odd crores, much higher than what was there in the last quarter. So, what explains this higher provisioning?

Nirmal Jain: So, if you look at our ECL, then we have increased the provisioning requirement for Stage-2 and Stage-3 customers. So, as I said that microfinance provisioning is about Rs. 110 crores. Also, for our HFC, the provisioning is about Rs. 54 crores, which was only Rs. 10 crores in the last

quarter. So, last quarter we had from good recoveries as well. But all these things added up to the provisioning of around Rs. 251 cores, what we have as loan losses and provision. So, we also increased the provisioning of ECL 2 and ECL 3 of CRE portfolio. Although the portfolio is small, but we increased the provision there. Now, these ECL computations are in line and in discussions with our statutory auditors. So, then we can estimate, and we do that.

Anusha Raheja: So, how much are we saying the CRE and the capital market book down by around almost 50% on a Y-o-Y basis, but what is the broader call and henceforth any more further increase in the provisioning there?

Nirmal Jain: No, so the books are small, but that does not mean that has anything to do with provisioning because our provisioning has increased in microfinance also. So, in case of microfinance, as you are aware that the industry, I think in microfinance for the industry as a whole, what we are looking at 2% might become 3% as the guidance for the provisioning requirement in a year, loan losses and provisions. In other industry, in a way, it becomes mature, so that loan tickets for the total loan per borrower grows, of course, the risk is priced in. But that may be higher on account of provisioning. CRE portfolio, I mean, the book is just like sort of tapering off and will become very insignificant just like our capital market. But for the time being, as recommended by auditors, we will increase the provisioning.

Anusha Raheja: And just one last thing on this AUM growth that we have seen, on sequential basis apart from gold loans there is decline in other segments as well. So, is it more to do with the credit lines which were available to you? And that was squeezed out, and you got much lesser than what was expected and that has impacted the growth. Is that a better way to put it?

Nirmal Jain: Yes, that has impacted the growth, but also the last quarter was impacted by the 1st Quarter of the financial year being the slack quarter, the elections, and other disturbances in that quarter. I mean, that has also impacted the business. All these factors have combined, but our growth on a Y-o-Y business still is in line with the expectations. But now going forward, our first focus is to make sure that our compliance and assurance is robust, and growth can follow over a period of time. But in the 1st Quarter also we spend a lot of resources from the top management as well as the entire organization to make sure that at every stage at every link we strengthen our compliance.

Anusha Raheja: So, one last thing on this MFI, I think last quarter you had shared that you were facing some liquidity concerns there. So, what is the status on that side?

Nirmal Jain: As of now, so I think liquidity concerns are easing slowly. But the growth is impacted also by our conscious strategy on compliance, as well as the industry trends.

Moderator: The next question is from the line of Franklin Morris from Equitas Health Advisory. Please go ahead.

Franklin Morris: Sir, I have got two questions. One is, I just wanted clarity, what do you say in terms of gold loan business, once assuming the RBI lifts the embargo, how long will it take to come to a normal

business, how many months? And secondly, would you be open to selling part of your portfolio to any other entity?

Nirmal Jain: So, I think once the embargo is lifted, we can start with that immediately. This is unprecedented. So, it is very difficult to say how long will it take to get back to the original position or this thing, we will try our best. We will make sure that we reach out to our customers and offer them the best product, and also being fully compliant with RBI's guidelines. But I really do not have any estimated guess on this that how long it will take. Which is another question you have, sorry?

Franklin Morris: The other question was like; would you be open to selling part of your gold loan business to any other entity?

Nirmal Jain: As of now, the RBI restriction is also on selling the portfolio.

Franklin Morris: Assuming the restrictions are lifted.

Nirmal Jain: We will be open. I mean, the portfolio can always be sold to a bank or anybody else for that matter. And until the restriction is lifted, very difficult to speculate on that.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Funds. Please go ahead.

Vivek Ramakrishnan: My question is on the microfinance portfolio only. The first question is that, besides elections, heat wave, and rains and so on, there's also been an incidence of over leveraging with customers, which you have pointed out. So, is there any kind of income shock with the customers that makes default will be a permanent one? Because we have always had this other narrative that CIBIL scores are becoming more and more important when the customers pay back. So, that's question number one.

And question number two, Venkatesh, you talked about some rule engines that get put in place. If you could give a little more detail on how that helps, that would be really useful. That's it from my side. Thank you.

Venkatesh N.: Vivek, for the first question, in terms of the income, you said they are overleveraged, if I am right?

Vivek Ramakrishnan: The customer can be overleveraged and facing an income shock. But as far as I can see, there is no major income shock in the economy. I just wanted to know whether they eventually pay you back.

Venkatesh N.: Yes, sure. With aspect to that, if you look at April, May, there was a heat wave in a couple of States and things. In that time if you look at, there would be some kind of a little income shock. But it is not, I mean, it was for you can say for a 10 to 15 days kind of a thing. And it was also impacting a very few states with that aspect of it. And in terms of if you look at the overleveraged aspect of it, it is not that again when we start assessing the customer, probably we see a good

thing. So, what we went about, I am actually answering the second question now, the credit scores for the customers became very important.

We realized it very early. So, the third quarter of last year we started implementing it and we tied up with an entity called Synaptic where we were able to use their rule engine to put in. And if you look at, we have also gone state-wise, we were able to figure out ticket size. It's not that when we are onboarding and new to Samasta customers, we get about with the same ticket price in all the states, and we handled the new-to-credit in a different way. So, all these are helping us out in terms of things. And July was again, with the rains and all it was a slight spike. But it's not a significant spike in terms of the microfinance portfolio for us.

- Moderator:** Thank you. The next question is from the line of Ashlesh Sonje from Kotak Securities. Please go ahead.
- Ashlesh Sonje:** A few questions on your MFI portfolio. Firstly, can you share what is the proportion of your borrowers who have more than four lenders?
- Nirmal Jain:** Can you repeat, please?
- Ashlesh Sonje:** What would be the proportion of your MFI borrowers who have more than four lenders?
- Venkatesh N.:** Yes. I mean, if you look at it, we have less than 15% of our customers with more than four lenders.
- Ashlesh Sonje:** And secondly, can you share what was the slippage for the quarter in the microfinance business?
- Nirmal Jain:** Rs. 110 crores provision in this quarter.
- Venkatesh N.:** You are asking about the NPA, no?
- Ashlesh Sonje:** Yes.
- Venkatesh N.:** See, in microfinance 2.32% actually.
- Ashlesh Sonje:** So, this is the slippage or the Stage-3 that you are talking about?
- Venkatesh N.:** Stage-3.
- Ashlesh Sonje:** I wanted the slippage number if you have it.
- Venkatesh N.:** We did close to Rs. 100 core write-off.
- Nirmal Jain:** I think he wants to know the zero DPD or 1 to 30 DPD increase this quarter versus previous quarter. I think we do not have the data. We will get back.
- Venkatesh N.:** You are asking the increase in the in the delinquent accounts?

- Ashlesh Sonje:** Got it. The write-off you said was Rs. 100 crores in MFI this quarter?
- Kapish Jain:** Yes.
- Ashlesh Sonje:** Got it. And sir, just lastly a qualitative question, in the recent few quarters, three, four quarters, have you seen an increase in cases of employee frauds or borrower frauds in the microfinance business?
- Nirmal Jain:** Yes. I mean, for us, we have seen it with competition which has impacted us, but it's also restricted to few states again. But I mean, it is there, we have seen some impact.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Nirmal Jain, Managing Director, for closing comments.
- Nirmal Jain:** Thank you very much. Thanks all of you. And please do reach out to our IR team in case you need any further clarification. Thank you so much. Have a good day ahead.
- Moderator:** On behalf of IIFL Finance, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.