“Bharat Financial Inclusion Limited Analyst Conference Call”

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Management:

- MR. M R RAO – MD&CEO
- MR. K V RAO – CHIEF OPERATING OFFICER
- MR. VIKAS MUTTOO – EVP.OPERATIONS
- MR. ASHISH DAMANI – CHIEF FINANCIAL OFFICER
- MR. R PRATAP – DEPUTY CHIEF FINANCIAL OFFICER
- MR. ASHISH PIPALIYA – EVP. INVESTOR RELATIONS & NEW INITIATIVES
- MR. SRINIVAS PEDDADA – CHIEF INFORMATION OFFICER

M.R. Rao: Good morning to you all. The presentation has been uploaded on the website and I presume that all of you have gone through it. I will just walk you through the highlights of the quarter and the year to set the tone for your questions.

Disbursements Back to pre-demonetization levels:

Disbursements of Rs. 3,902 crore for the Q4 was up by 31% quarter-on-quarter. This is in line with what we have been reiterating since demonetization was announced. i.e. November 8th. The demand in this segment will continue to exist and during the phase of demonetization it was not fulfilled by any alternate source.

Customer acquisition rates moving up:

We acquired ~3.3 lakhs new members during Q4FY17 as compared to 4.4 lakhs in Q3FY17. Though it might be low as compared to previous quarter, but what is important that the monthly acquisition run rate has gone up. With acquisition run rate getting better in the month of mar’17, we are fairly confident that we will acquire ~30 lakhs customers during the FY18 in line with our guidance.

AUM grew by 7% QoQ:

During the quarter we mentioned that the closing AUM would be ~Rs. 9,000 crores. We were able to surpass this on the backdrop of healthy disbursement of Rs. 3,902 and client acquisition during the quarter.

Marginal Cost of Funds at sub 10% level:

Our marginal cost of borrowings is now below 9%. Our drawdowns in Q4 were about 2,600 Crores, which is an improvement of about 150% quarter-on-quarter.

Goss Collection efficiency at 96.7% better than the industry:

We see a continuous improvement in the collection efficiencies. Our collection efficiency on a gross basis have improved to 96.7% (reported for the period 1st to 25th April). There has been an improvement in collections in almost all the major states as compared to February 2017.

Operating Model Validity established again:

During the phase of demonetization the collection efficiencies dropped to as low as 89% for the enterprise. Referring to slide 52 of earnings deck for Q4FY17, the data clearly shows the levels of NPA as compared to the Non-JLG model which is as high as 17% against the 7% for JLG model. If we compare between weekly and other repayment frequency models, weekly model has an NPA of 4.6% as compared to monthly which is as high as 14.5%. Our belief in weekly repayment frequency model, which mimic the cashflows of our customer also gets validated again. We believe the JLG model best suits the Rural if we compare the NPA with Urban geographies which is as high 17.3 as compared to 8.9% for rural. We again reiterate the strengths of our operating model which is focused towards Rural, Joint Liability Group, Loans for income generating activity and weekly repayments.

This is especially a validation of our strategy and our model which we have been articulating for quite some time that we will be continuously be focused on JLG, we will continue to be focused on the rural markets and we continue to be focused on lower ticket sizes and whatever growth we planned is based on customer acquisition and a marginal increase in ticket sizes. That is also reflected in the episode of demonetisation and the election. Slide Number 52 clearly spelt out the reference between non-JLG and JLG, the reference between monthly and weekly repayments and the difference in repayment rates between urban and non-urban.

We will continue to be focused on our strategy for the year as well in terms of bulk of our focus being on rural, JLG, weekly and our customer acquisition and disbursement strategy will be in line with our strategy, which is kind of validated itself for the second time. First time was post AP crisis and second time was post demonetization issue.

Conservative Provisioning Policy:

We reported a loss of Rs. 235 crore for Q4FY17 as against profit of Rs. 143 crore for Q3FY17. We follow a conservative provisioning policy of recognizing the NPA after 60 days as compared to RBI which is 90 days. Following the policy we have incrementally provided Rs.

335 crore for Q4FY17. As a result of this we have reported a loss of Rs. 235 crs for Q4FY17 and Profit of Rs. 290 crore for FY17.

Had we not followed this 60-day provisioning policy, our profits would have been ~Rs.600 Crores plus which is in line with guidance that we have given last year, but we feel that being conservative pays off in the long run. As we see continuous improvement in collection efficiencies we are fairly confident that we will be able to recover some money from the provided portfolio.

Focus on Technology:

Despite the challenges due to demonetization, that we face as an organization, we did not take our eye of the ball on the technology initiatives that we have been piloting. Our e-KYC and cashless initiatives have really taking off. Now disbursement is done based on e-KYC.

75% of our disbursement during 1^{st} – 25^{th} of April happened as cashless, directly transferred into bank accounts of the borrowers. We are far ahead in terms of committed time-lines. This speaks about the execution skills that our operating team has demonstrated consistently.

Retail Distribution & Service Points(RDSP):

While we are committed to go make our operations cashless, first in terms of disbursement and then for collections. We have fairly achieved the target of cashless disbursement and now embarking focus on cashless collections. We have been piloting the concept of RDSP for quite some time. Under this concept we identify a grocery store, in a village, and equip the store with basic android phone and bio-metric device to carry the transactions. Under this model, grocery store acts as a service point i.e RDSP for withdrawing cash, accepting deposits from the customers and miscellaneous cross sell activities. The borrower comes and deposit the instalment in cash, a day before the meeting at the grocery store, and the store transfers credit the same to customers account instantly. We draw money from the borrowers account through standing instructions.

This creates a space for efficiency at the field level, and also creates huge opportunity for the grocery stores to increase their own revenue. More importantly it is very helpful to our borrowers who otherwise would travel to 2-5 kilometers or more for withdrawing their disbursals from different banks. In this case they just need to walk to designated grocery store and withdraw the loan amounts or deposit the cash or can park there savings in their savings a/c. We piloted RDSP in Karnataka and now plan to roll out the same to few other states.

This is consistent with the notification issued by the company yesterday on the strategic initiatives to go cashless. Based on our internal assessment we are in a position to enable 2 lakh such grocery stores (RDSPs) across the country, enabling us to position, where we can have co-branded cash dispensation, cash collections points across the country and we will use the same network to do cross-sell as well. We think this proposition will really add lot of value to be borrowers and provide a better stickiness with the customers.

I think we are very excited with this powerful proposition. The whole priority for us would be in next three to six months to expand the pilot to a couple of more states then get a grip on the whole process so that when we can expand at much faster pace than what we normally are used to.

Two Wheeler & Housing Loans Pilot:

We have been piloting the two-wheeler loans with our member base. The pilot has been quite successful. Even during the phase of demonetization the collection efficiency remains robust for such loans. This gives us courage to pursue this further, and expand the pilot. We will try and scale this up in the next 12-18 months.

We are also piloting home improvement loans for our borrowers. The loans will be offered to clients who have completed 3 cycles of IGL loans with us. The loans will be offered for activities such as adding a new room to the house, thatched roof to lenter etc. We see low competition in this segment due to inherent challenges poised dealing in Rural geographies.

Guidance for FY18:

Given the unmet demand in the microfinance we are confident that we will be able achieve 48% growth in the AUM at Rs. 13,500 for FY18. With conservative view on provisioning for next year we target PAT growth of 50% to Rs. 435 crs. Depending on our collection performance in the next three to six months, we would come back and report those numbers as well and revise the guidance if needed.

With this I throw the floor open for questions and I have the entire management team here with me.

Moderator: Thank you very much. We will now begin with the questions and answer session. The next question is from the line of Sunil Tirumalai from Credit Suisse. Please go ahead.

Sunil Tirumalai: Good morning. Thanks for the opportunity. I have couple of questions on the guidance. On the PAT guidance growth that you have given; you just mentioned on what thought gone into the credit cost so I just wanted more details on that specifically at the end of six months as per your policy you provide full 100% as that been taken into our account and any further NPA slippages factored in. Just wanted to understand what is the credit cost consumption is behind the PAT guidance?

M.R. Rao: We are consistent with our conservative approach of writing off or providing 100% provision on the loans which are over due for six months.

Ashish Damani: From guidance perspective, we have considered > 8 weeks' overdue portfolio as on 31st Mar'17 and have created additional provision required for FY18 on the same, which amounts to ~ Rs.250 Crs (including standard asset provisioning)

Customers might be repaying to us, but the provisioning policy doesn't give benefit, because if the customers have already 10 installments overdue, let say they pay one installment, still we should take provisioning on such accounts. provisions do not have to step up but if there is repayment happening and overtime we will see actually write-backs/ provisions reversal.

In guidance, we have assumed that there will be a timing difference due to expired contracts (as per the scheduled tenure), we have to provide 100% against such expired contracts and > 8 weeks overdue, keeping these things in mind our guidance was given, assuming March 31st position, whatever needs to be provided for, we have provided in FY18. So, there is good possibility that you may see some reversals over time.

Sunil Tirumalai: That is very helpful. Thank you Sir. Second question you gave for the disbursement growth guidance is for about the 32% - 33% whereas the loan growth is larger. Is there any tenure or longer tenure loans mixed change that is being built in?

Ashish Damani: We don't foresee any meaningful impact on the growth due to tenure of the loan. The loan Mix would remain same. It is because of the disbursement pattern which is ~60% loans in the second half of the year and 40% in the first, because of the customer acquisition pattern.

Adding to the earlier question, if you add back Rs.250 Crores provisioning to the Rs.435 Crores that we have guided we are talking about Rs.685 Crores, which will be inline with our ~30% growth in AUM from previous year.

Sunil Tirumalai: Last question Sir if you could give some details on geographically how the I mean in the past you have given in the key to two to three states how the collection efficiency have been if you could just given update on that in March and April and also I mean any update on the zero centers and customers or NPA accounts, which have not seen any movement etc? Thank you.

Ashish Pipaliya: Referring to slide #49, we are growing in states such as Odisha, Bihar, West Bengal, Kerala and Rajasthan. In Maharashtra and Karnataka we see a drop in portfolio. In Maharashtra district such as Amaravadi, Wardha and Yavatmal where we have collection issues we are degrowing the portfolio. However at other remaining places in Maharashtra we are disbursing.

So for FY18, we would like to grow our portfolio in the states such as Odisha, Bihar, West Bengal, Kerala and Rajasthan keeping our concentration norms in place.

Sunil Tirumalai: Any update on collection efficiencies in these places or Maharashtra, UP, Karnataka etc.?

Ashish Pipaliya: Our gross collection is at 96.7% for the period 1st - 25th April. This is a lead number for the month of April and if you remove Maharashtra where we have something like 83%-84% collection and the number would be close to 98.2%.

Sunil Tirumalai: Okay got it. Thank you Sir.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Sir with respect to when you look at it what we disclosed for February and when we come to March, so in February that number was round about Rs.367 odd Crores now that the number is Rs.363 Crores in the month, there is hardly any movement, which has been there so when we look even overdue portfolio, which is there which was coming down by say Rs.100-120 odd Crores in say January and February again in March it is coming down by say less than 100 odd Crores so there is no pickup. In fact what we were thinking like post the elections finally would see the customers repaying our efforts have been pretty aggressive but is it trend better in the month of April particularly with respect to this ageing which is today Rs.712 Crores is it coming off significantly or we should expect Rs.100 odd Crores kind of recovery only every month and it would really take some time.

M.R. Rao: We see collection efficiency picking up gradually. To answer your question let me take an example, If a borrower has 8 weeks overdue, she will not be able to clear all the overdue at one go. She might pay you weekly while continuing to be in under 8 week overdue bucket. In this scenario, her loan tenure gets extended from 50 weeks to 58 weeks. The important thing to look at is, her intention to repay, and how many of them are coming back and started repaying, which we are seeing.

As you are aware that during the phase of demonetization at many places, people were motivated/influenced by local politicans to not repay, which further accentuated the situation at some places. Its when borrower realizes that she has very limited avenues to access funds and defaulting of loan with MFIs will bar them for further loans, they start repaying back. As we have reiterated earlier that this will take time and we think by Sep'17 things might get back to normal.

Kunal Shah: When we look at in terms of the managed loans so what we disclosed in the month of may be when we disclosed about the February, the collections were like Rs.91 Crores and Rs.83 Crores in the month of January wherein shortfall was lower it was in fact Rs.17 Crores and Rs.11 Crores and when we came to March in fact the shortfall in the month of January and February has actually gone up to almost like Rs.23 Crores and Rs.81 Crores so there is like arise which has happened of Rs.6 Crores and Rs.7 Crores in the month itself and so I am not, if you have working with Rs.11 Crores to Rs.12 Crores per month kind of number of shortfall in managed loans in fact it has come higher at Rs.19 or Rs.20 Crores so what is the reason between like January and February, which were actual connections and the difference between what we disclosed in the prior maybe during March and what we have disclosed in April?

Ashish Pipaliya: For managed loans we have a total guarantee on the pools originated, which is 10% - 15% of the portfolio outstanding of managed loans. As you see in the slide #56, we have total overdue of Rs. 92 crs, but our obligation remains to the extent of the guarantee offered. Our obligation for the outstanding managed loans was upto Rs. 72 crs as on 31st Mar'17 which we addressed in Q4FY17 by writing-off Rs. 7 crores and provisioning of Rs. 65 crs,

Kunal Shah: That is pretty clear from this. The only thing is when you compare earlier when we came out with this release up till March in fact the collection on our due portfolio so in January due was Rs.108 Crores, in February due was Rs.94 Crores and last time when we disclosed it we highlighted collection was 91 Crores in January and 83 Crores in February. So these are the actual collections and shortfall at that time was 17 Crores and Rs.11 Crores. When we see this presentation in fact the collections from Rs.91 Crores has come down to Rs.85 Crores and this Rs.83 Crores connection which was disclosed earlier that is come down to Rs.76 Crores which is taking up the shortfalls so the last time we disclosed shortfall of Rs.17 Crores in January and Rs.11 Crores in February which are like the actual numbers and year it is showing Rs.23 Crores and Rs.18 Crores.

Ashish Pipaliya: We will get back to you on the difference of numbers.

Kunal Shah: Is there anything Rs.14 Crores kind of a hit, which is coming just particularly with respect of this?

Ashish Pipaliya: As explained earlier the total liability on Managed loans is Rs. 72 crs, as on 31st Mar'17 which has been addressed in Q4FY17.

Kunal Shah: That is the number we have already provided for and if we can get the sense in terms of so on whatever more than eight weeks and say wherever it is expired contract we do 100% provisioning so any sense is how much will get expired in next one quarter or so wherein may be we will have to inch up the provisioning from 50% to 100% out of this Rs.371 Crores which is reported today?

Ashish Pipaliya: The 100% provisioning due to closed contract is Rs. 9 crore. When you look at overdue greater than eight weeks bucket, the total number is Rs.432 Crores and if you remove the the customers who have been repaying the net number is Rs. 363 Crores. There is positive gap of Rs.70 Crores, which should flow back to P&L. We have today something like Rs.241 Crores, which will go to Rs.432 Crores but will get Rs.70 Crores of write back which will come over a period of next six months to year, so the net number would be only Rs.120 Crores, not Rs.190 Crores. As far as the guidance is concerned we have actually build Rs.190 Crores, we just wanted to make it clear.

Kunal Shah: Okay that is what so I just wanted to get the sense may be how much we are building, so that is like almost Rs.190 odd Crores in the guidance.

Ashish Pipaliya: Rs.190 Crores on overdue portfolio and then Rs.15 Crores *(Rs. 3 crs * 5 months)* as FLDG against securitization and Rs. 45 crs on account of standard assets (Rs. 13,500 – Rs. 9150 crs *1%).

Kunal Shah: Just one overall in terms of Maharashtra how much is the portfolio and what is the write off of their Maharashtra if you can get the quantum for that?

Ashish Pipaliya: Maharashtra is 11% of AUM.

Kunal Shah: That is 11%, but similarly with respect to the three districts, which are there?

Ashish Pipaliya: The short fall is largely attributed to the three impacted districts in Maharashtra.

Kunal Shah: Thank you. I will come back in the queue.

Digant Haria: My question is on the collection centers. How many collection centers would have reached around 100% normalcy, which means close to 100% collection then 100% disbursements?

M.R. Rao: ~76%, center have 100% collection efficiency since demonetisation, 23.6% are partial collections center and 0.4% are with zero collections.

Digant Haria: I got it Sir. So 80% is the 100% normalcy that where everything is as good as before demonetisation.

M.R. Rao: There are ~ 0.4% centers with zero collections, which was 1.4% as on 15th Dec-16.

Digant Haria: Okay, got it. In terms of our competition what we see is that for us collections have improved probably much better than lot of the competitors who report numbers and even in terms of growth we are more sanguine compared to lot of our competitors. I do understand that most of your competitors that we talk off our urban centric, and we know may be monthly collection then that would be one of the reasons, we are seeing better trends, but we know the places where you operate, how do you see this competition shaping up like yes the aggression completely toned down or if you can just give some idea about this?

M.R. Rao: We have seen this playing out during AP crisis, where the companies with weaker balance sheets or weaker processes or may be aggressive lending approaches went into severe crisis. Our focus on JLG model, Rural presence and lending for income generating activities along with strong balance sheet gives us a confidence to talk about growth as compared to our peers. While some of our peers have converted into small finance banks, which leads their focus on transformation into Bank.

So we see competition not being as intense as it was earlier. During the last year in roadshows, we mentioned that the industry is poised for a shake out, although! nobody anticipated that would come in the form of a demonetisation event. As the shake out has happened, I think you will have stronger and more mature players left in the industry.

Digant Haria: Thank you very much. That is it from my side.

Nischint Chawathe: My question pertains to the digital distribution that we are talking about how would you go about it and more importantly what kind of an impact will it have on the cost to income ratio, how do we think about that?

Ritesh Chatterjee: We have already outlined the structure of retail distribution and what is the purpose of it. so taking an account the purpose of going Cashless with Biometric we were looking for a suitable platform and Aadhar pay is the platform which we have adopted, this opens up the window of opportunity to set up an alternate distribution network, that is supplementary and not alternative, it supplements the complete transactional platform for the existing business.

We are currently piloting this with one Bank and to scale it up we are planning to tie- up with other banks. The idea is to reach to 2 lakh RDSP points, which we have mapped as per our operating geographies. We focus to set up these RDSP near to our centers. Given the scale, we will be communicate the time lines later.

M.R. Rao: Center meeting time can be reduced from 45 minutes to ~15-20 minutes by taking out cash collection and disbursement transactions in the meeting. The idea is to utilize the remaining 10-15 minutes which we intend to do by apportioning some part to educate the borrower in terms of financial literacy, and remaining time can be used to for facilitation of products like Mobile phones, solar lamps etc.

As we can reduce the center meeting time to one third, the sangam manager productivity can go up drastically, for example by adding one more center or adding one more group in each center which he handles the productivity can reach upto 950 borrowers per sangam manager, I am just throwing examples. This all can lead to higher productivity thus helping in reducing the cost to income. As the MFI industry is highly employee dependent and the cost and revenues lies at the sangam manager level, so any meaningful gain in productivity lead to drop in cost to income.

Nischint Chawathe: How should we see the expenses for the reaching out to the grocery store?

M.R. Rao: We factor the cash management expenses to be marginal as many of the customer would depositing cash and some would withdraw funds, so it will be netted. We further making avenues of revenue for RDSP (grocery stores) by enabling them as a distribution point. For example if a customer wants to buy a Pressure cooker from some online retailer, she can order through RDSP and get it delivered at a RDSP which we can finance and in this RDSP will also get commission.

Ritesh Chatterjee: Essentially we are creating 2 lakh distribution customer service points for our borrowers, which are the very, very powerful sales tool.

Nischint Chawathe: The second question is on the new products that you are launching I mean how should we see the fact that the kind of trying to move out of the JLG model?

M.R. Rao: The premise of our strategy revolves around the same customer segment. When we facilitate a cross sell product we see it as an productivity enhancement tool for the customer. We plan to offer the loans for two wheeler to the our member base who have demonstrated atleast 2 cycles of IGL. The loan for two wheeler is under JLG model.

Similarly, for home improvement we target the same borrower base. We see a limited or no competition for home improvement loans to this customer segment. The demand for room extension, or building a toilet etc. remains unaddressed. We would like to offer this product to clients who have demonstrated at least 3 cycles of IGL loan, which means we have met her at least 156 times. So we understand the borrower and as she has already demonstrated her credit track record over this period. This give us confidence to offer higher ticket size loan to her. It will not available to every one. We have piloted this pre-AP crisis and we were quite successful in doing that. As I said our customer segment remains same, so we are not essentially drifting away from JLG.

Nischint Chawathe: Okay, great. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Thanks for the opportunity. My first question is basically on the AUM guidance. If you can give some color how much is from new products and MFI business, how much from ticket size, duration and customer addition?

Ashish Pipaliya: We will add 30 lakh customers in the financial year 2018 and all these 30 lakh customers will take IGL one, with average ticket size of Rs. 20,000 and few cross-sell loans i.e. productivity loans of ticket size ~Rs. 2,150 which will be given after a gap of four to eight weeks, before we actually give a next loan. For Customers who move from first year to second year, the ticket size limit goes up from Rs. 20,000 to Rs. 30,000 and as she moves to the third year she can get about Rs. ~40,000 and ~ Rs. 50,000 in fifth year. In FY17, from November to March we had very low customer acquisition, because focus was on collections recovery. But in FY18, we are planning to add 30 lakh customers and to put it from the perspective of AUM guidance of 50% growth, it will be driven by about 35% customer acquisition and the rest ~10-12% would be ticket size.

Jigar Valia: Got it and negative on the duration, slight decline in duration.

Ashish Pipaliya: I think it will have very small impact.

Jigar Valia: Just clarification that in terms of educating the customers particularly when we are adjusting the current installment to the month of November or December or the first shortfall installment while the customer might be thinking it is current and for the customer from our side the number of installment increased from 50 to 58 weeks, but after 50 weeks the customer if at all they do not pay, then we have any which ways is provided if they pay there will be a write back?

Vikas Muttoo: Passbook is with customer and has weekly schedule, which will be adjusted on a weekly basis. The requisite payment is adjusted against the requisite week for which it is paid. So, if she paid one installment and she has four installments due, we will mark the 1st week for which she has outstanding. She can see from schedule for which week she has paid, which continues to happen in the center meeting. Additionally, there is something called as central register which we maintain in the centers, which is also updated on a weekly basis and has the signature of the center leader as well. We also have client protection principles campaign going on, in which we communicate to them on the benefits of regular repayment.

Jigar Valia: Perfect, got it and just one more clarification. Is it possible for you to give a split of 8 to 25 weeks' number? You have explained 432 Crores is there and we have 70 Crores of positive delta possible, but otherwise if one must look from bucket shift from 25 weeks to more than 25 weeks, so off the 8 to 25, how much is more closer to 25 and 8?

Ashish Pipaliya: I think if you want to understand the timing of this credit cost, a bulk of remaining cost is going to come in Q1 and a small amount will come in Q2.

Jigar Valia: Thanks.

Moderator: Thank you. The next question is from the line of Anil Bang from Marshall Wace. Please go ahead.

Anil Bang: Thanks for taking the question. In slide 53, which shows the collection during the period dues for the period. I just want to understand if the installments have been overdue, there is a limitation to which this number would go up right, because the base would also have the installment, which you are showing in your overdue buckets or may be the other way to address if you would give me the collection in the recent vintages like whatever you have disbursed in the last two, three months?

Ashish Pipaliya: From enterprise perspective i.e. without bifurcating on-balance sheet, off-balance sheet, last few months disbursements post demonetisation, the collection efficiency ~ is 99%.

Anil Bang: Okay and on the cashless, but again could you just highlight like what would be the efficiency improvement we can expect overtime I mean it is too early but 75% of the disbursements are going in the cashless mode, in the next two to three years what kind of efficiency improvement could be expected if this continues?

Vikas Muttoo: On the cashless front, we must view it in two contexts. One is that, with disbursements to bank account will reduce the time of the center meeting. So, you can assume improvement happens through that. Additionally, the Kirana store concept, which also makes the reverse repayment cashless would be a big one. We are 75% cashless on disbursement side already.

Anil Bang: Thanks. My questions have been answered.

Moderator: Thank you. The next question is from the line of Adi Desai from York Capital. Please go ahead.

Adi Desai: Thanks for the presentation everyone. I just had a few questions. First question is really on the guidance even if I included the numbers for extra credit cost and provisions we should expect in the next two quarters, our numbers like the guidance are still significantly below what is the consensus and even my numbers as before. I just wanted to understand, is the credit cost the only other thing over here or we expecting AUM growth and loan growth to be slow like, so 50% is that sort of the year end figure or is that an average figure how do you think about that?

Ashish Pipaliya: As far as the guidance is concerned, we are building about

Rs. 250 Crs of provisions and write offs, which includes incremental

- Standard assets provisions of Rs. 45 Crs.
- Sub-Standard assets provisions of Rs. 190 Crs
- Off-balance sheet provisions/losses of Rs. 15 Crs

So, if you take Rs. 435 Crs of PAT, you add Rs. 250 Crs, you would get Pre-provisioning operating profit of ~Rs. 685 Crs. Against Rs. 685 Crs, if you look at a comparable number for FY17, that is Rs. 552 Crs, which is ~26% increase in pre-provisioning operating profit YOY. Average portfolio for FY17 ~ Rs. 8,600 Crs and FY18 would be ~ Rs. 10,800 Crores, ~25% increase in portfolio. Hence, operating profit is very much in line with AUM growth. On the difference between 50% AUM growth and 25% average portfolio growth. If you look at FY14, FY15, FY16, Disbursements are skewed towards Q3, Q4 i.e. ~ 60% of the disbursements for the year happen in Q3, Q4.

However, due to Demonetisation impact on November till January, we had decline in the portfolio, and Hence, Q1, Q2 of FY18 growth will be lower and large part of the growth is in the second half of the financial year FY18.

Adi Desai: I just had one more question. I saw the other announcement by the Company was about strategic review. Just to understand what is leading to the Company reviews, is it your operating environment, is that options would be have or lack of banking license I just want to understand what is thinking behind it. That is particularly I guess?

Adi Desai: I just wanted to understand the rationale behind starting a strategic review and that allows to see you an MD to appoint a bank to do a strategic review, was that the operating environment, was that the options on the table, why we are doing this right now?

M.R. Rao: The whole thing starts from the operating strategy. If you want to go cashless, you need technology, you need bank services, you need a whole cash management services, you need the capability to handle 2 lakh distribution network and also foray into housing finance and two-wheeler pilot. Given this backdrop, we felt that we need to do thorough review of all the strategic options and arrive at a decision, keeping all stakeholder's interests in mind i.e. customers, shareholders and employees.

Adi Desai: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: Thanks. The first question just related to the previous one. Are you saying that the standalone MFI model is something that is not going to sustain in the long run, is that the view that the board has taken?

M.R. Rao: On the contrary, I think this is validation of the MFI model i.e. MFI model has huge potential to add more products and services and make things easier for the borrowers. MFI model began offering doorstep services to the women both in terms of offering loans and collections. Given the regulations and the government's priority is to become more and more cashless, you can only add value through a bank account and create a more efficient process in this MFI space and we have been piloting on these lines for the last few years. So, this is the continuation of what we have been aiming for. It is just that regulation demands it now. We are in a sweet spot because we have the technology, process and strategy in place and now we will be able to offer more products. We will be able to serve customer more efficiently, so if we can shave off some center meeting time, you are giving more space for the loan officer to offer more products. Given this and the fact that you are creating 2 lakhs distribution points, Board wanted a strategic review of the options, organizations to tie up. In fact, this is a validation of the whole MFI space and the business, and opportunities it throws up. If you can reduce your operating cost significantly, you are able to not only offer more products, but you will also able to reduce the interest rates to the borrowers, which is the tickling point most of the time in this space.

Ashish Pipaliya: Just to add to what M.R. said, on the lending model and interaction with customer is concerned, the whole focus on weekly model, rural focus and on the JLG (Joint Liability Group), I do not think we are going to dilute any of these practices. If we have a bank account for collections, we can change the way we interact with our customers, we can reduce the center meeting time from 40 minutes to 10 to 15 minutes, this is what we are looking at. There is no change in the customer segment. There is no change in the lending approach and the lending model.

Nilanjan Karfa: Sir what you just said, I think is this is probably related to MFIs, if you look at slide 23 and we changed the loan duration and I apologize if you had mentioned it why this happened and then given that we are looking at two years home finance, which probably looks at a different segment of loan, but with a different duration altogether, how do you look at these to, how do these two gel with each other?

M.R. Rao: What you are referring to in slide is higher tenure based on the RBI regulations. RBI regulation clearly says that if the loan amount is higher than Rs. 30,000 the repayment tenure necessarily must be at least two years. If there is any borrower who wants to borrow Rs. 30,000 and above he should necessarily take a two-year loan. we budget it saying that “X” number of borrowers who would potentially have an option of greater than Rs. 30,000 loan for two years. So, both have got nothing to do with each other. The only commonality one can draw out of this is we have been doing this two-year loan for the last three to four years and the repayment has been impeccable as good as the one year microfinance loans. We are saying if we were to give a two-year loan for a two-wheeler or a three-five year loan for a housing finance, given our experience in long-term microfinance loans, we do not anticipate any repayment problems.

Nilanjan Karfa: Yes, kind of. If I can push in the third one, if I look at the collection efficiencies let us say of the overall portfolio vis-à-vis let us say the Securitised portion as well as the managed loans portion, what explains this difference and therefore if I have to take you back to let us say the Pre-demonetisation period what kind of yields were you making in each of those three categories, if you can elaborate versus what you are making today and specifically on the managed loans therefore is your pricing strategy is going to change? Thank you.

Ashish Pipaliya: I think if you are referring to slide 56, where we are talking about off-balance sheet collection efficiency against the securitization loans now is 96.4%, it is very close to our enterprise level on-balance sheet numbers. We are originating loans for managed portfolio in two pockets i.e. in the Nagpur region of Maharashtra, and Gulbarga of Karnataka. There are issues in these three districts out of 27 in Maharashtra. we have been facing issues in Amaravati, Wardha and Yavatmal and that is why this collection is lower than the enterprise average number.

Nilanjan Karfa: Right, but what were you kind of if you can elaborate what were you charging on the managed loans and if the outstanding portfolio is anywhere around 688-odd Crores what kind of cash collaterals are we holding as of March 2017, and given what is coming already in the next quarter. Now what kind of numbers do you look at kind of an additional solution that we might need to do?

Ashish Damani: If you look at page 56 of presentation, we have detailed the total credit guarantee that we have given against managed loans as of March 31st, 2017. In terms of the interest rates that we charge on our managed loan, it is no different from our on-book, which is 19.75%. Operationally whether we do managed loans or whether we do on book lending the way we approach the product is the same. There is no disparity between both managed and on-balance sheet book, in terms of the pricing, we do not see any price change.

Nilanjan Karfa: If you can just - kind of understand this, so do you keep about 75% cash collateral on the manage loans?

Ashish Damani: No, the cash collateral will only be 5%.

Nilanjan Karfa: The overall guarantees I am sorry.

Ashish Pipaliya: Total guarantee is about 10%, which we have put in the note there below and 5% would be cash collateral and 5% would be corporate guarantee.

Nilanjan Karfa: So how is it, what constitutes Rs.72 Crores as a maximum credit?

Ashish Pipaliya: Rs. 72 Crores is a percentage of Rs. 688 Crores, it is about 10% to 15% of the total portfolio outstanding, which is our credit enhancement or the total credit guarantee as of March 31st, which we have guaranteed in terms of cash collateral and corporate guarantee of Rs.72 Crs. We have fully provided for this in the quarter (Q4 FY17).

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead.

Rahul Ranade: Thanks for the opportunity. Just was wondering if you could give us the number for customer on a run rate basis who actually graduate from becoming being a microfinance borrower to becoming a bank borrower by using the established track record that they have with you maybe those you can retain with you by the strategic option that you are looking at?

M.R. Rao: What you are trying to ask is, how many of our customers' graduate based on our track record to borrow from a bank is that right?

Rahul Ranade: Correct. Yes.

M.R. Rao: There is no number on this. There could be borrowers who borrow from a bank through BC route or directly from bank and could borrow from us also, it depends on the need. The flaw in the JLG model from a repayment point of view, we see 99.9% repayment, but you do not know how many times they have used the JLG support to repay in a particular week because we do not track internal defaults; however, through this whole RDSP Kirana route, when we start pulling the installments through their bank account we will know how many of them have actually paid from their sources and how many of them are depending on the JLG support, so today if you were to look to anybody's repayment track record it will look at 99.9%, but that is not the correct representation, because you do not know whether somebody else has cushioned for her, that is the flaw that most of the companies, who got into individual lending make. They think if woman has repaid 99.9% in a JLG format then she can repay and offer Rs. 80,000 or Rs.1 lakh (higher ticket size) loans in an individual mode and these companies repayments have suffered post demonetisation as is evident from our slide number 52, where we clearly highlighted that non-JLG par is about 17% as against 7.5% for JLG.

Rahul Ranade: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Saurabh Das from Franklin Templeton. Please go ahead.

Saurabh Das: Thanks for the opportunity. My first question is for customers, which are let us say eight weeks overdue, are you classifying those customers as NPA for regulatory reporting purposes and if so then what is the incentive for such customers to pay installments any further?

M.R. Rao: We report to the credit bureau on a regular periodic basis as to who is paying and who is not paying, so those who are not paying are currently reported as defaulters, but that is the credit counseling and the financial literacy piece that Sangam manager is tasked with. He is going to tell them, you are currently identified as a defaulter, if you become current, if you repay this loan, you will be eligible for a new loan, otherwise you will never get a loan in your life at least from MFIs", so that is where slowly borrowers will come back and repay, but as I mentioned they will ask the Sangam manager, I have not paid for eight weeks and I do not have the eight weeks installments to pay at one shot, so then he says at least start repaying now and over a period of time you will be eligible, that is where the strength lies of our disciplined process, which we are without being modest about it, we are very good at.

Saurabh Das: Regarding your disbursal policy if somebody has eight weeks' overdue would you disburse any further to that set of customers?

M.R. Rao: No, we are not doing that.

Saurabh Das: Right.

M.R. Rao: We tell them you are not current, that is where it boils down to where our loan officer says listen in a center, let us say somebody is eight week overdue, but somebody is current he is disbursing, he tells this woman we are disbursing loans, it is not that we have stopped disbursing, I am disbursing to this woman, because she is current I am not going to disburse to you because you are in arrears. So, if you become current you will also be eligible for a loan.

Saurabh Das: How does the JLG then work with 20 people five defaulting, 15 others current, so you would be disbursing to that 15 under the JLG model?

M.R. Rao: It is five per group. So, it is group dynamics, which come into play.

Saurabh Das: Okay and of 80% centers, which reports 100% collection efficiency for the remaining 20% you are still disbursing, but would you be selective there, is it?

M.R. Rao: No, there would be centers where all the groups are paying, so in those groups we would be disbursing and the groups, which are not current we would not be disbursing to those groups.

Saurabh Das: As a percentage of your footprint in terms of districts what percentage of districts are you currently not disbursing at all?

Vikas Muttoo: We follow center disciplined approach. The approach that we take is at the center level and which then moves to the district level approach. As we say, we will not disburse to a center where we don't have full repayments from center, which is current, barring a few partial collection centers where we have taken a group approach. If you ask me we are very, very slow in certain top four, five defaulting districts in terms of disbursement, we can refer Amaravati or Yavatmal, marginal disbursements are there.

Saurabh Das: Incrementally as a strategy would you kind of blacklist certain districts and kind of feed into to your model for further future lending strategy?

Vikas Muttoo: We continue to assess the geographies in terms of the repayment behavior, based on the MFIN data and etc. We also do the footprint from the credit bureau, it is a continuous assessment that we do, but primarily it will be repayment behavior, which will drive this.

Saurabh Das: Just lastly, in terms of availability of liquidity we do understand you are well capitalized and there are a few peers of yours who are also well capitalized, but in terms of overall availability of liquidity to this sector, do you see a paradigm shift in the last three months from the banking channel?

M.R. Rao: No, we have not seen any issue on liquidity, you would have seen that we had drawdowns of Rs. 2,576 Crores, which is 146% increase quarter-on-quarter, we have not seen any liquidity issues.

Saurabh Das: My question is more for the industry as a whole, so are you witnessing some of your peers actually withdrawing for liquidity?

M.R. Rao: Through the grapevine we hear and we have been maintaining right from QIP days that when a shakeout happens you will see the small players fall by the wayside because customers are not going to repay to them because of probably their aggressive lending approach. Banks are not going to give them loans because they have a repayment issue, so it is a vicious cycle and that is what we have seen it in the past A. P crisis, we are seeing it now playing out that the smaller companies with very aggressive lending practices will not survive.

Saurabh Das: Great. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Sumit Chaudhary from Zaaba Capital. Please go ahead.

Sumit Chaudhary: Hello gentlemen. Thanks for the very detailed presentation. Just a couple of questions if you could talk about your hiring plans for next year considering you just increase your head count quite materially around the QIP, so if you could talk about how are you planning to increase your headcount next year?

Ashish Damani: We will be adding close to about 200 branches, we may have to hire around 10% of Sangam managers over the next financial year, other than that we do not see any additional major hiring.

Sumit Chaudhary: Right, but then if I look at the implicit pre-provisioning profit guidance in your numbers that would be basically in line with your average GLP, so how should we factor in the operating leverage that we should probably expect considering headcounts not growing as much as your even average GLP next year?

Ashish Pipaliya: We are planning to add ~ 15% to the overall headcount, the hiring actually starts picking up in the first half of the financial year, but as we have communicated earlier the portfolio growth is back ended, so there could be difference in timing. we have kept our operating profit guidance in line with AUM growth, there could be some upside, given that we are focusing on cost efficiency and reducing cost to income ratio, as we progress towards the financial year, I think we will be able to give you more clarity on that in terms of what could be the quantum of that.

Sumit Chaudhary: Yes, understood because even hiring effectively, I mean you can afford to I do not know, but you can probably afford to be a little bit more back ended right, considering you are already over staff so to say considering the hiring that happened just before demonetisation?

Ashish Pipaliya: We are adding 200 branches this year, so most of the hiring is linked to those 200 branches, So, if we take 200 branches and six loan officers/branch, you are talking about 1,200 people to be added there. So, all of them are on account of new branch addition, so when you add branches you would start branches right from first quarter itself, we don't wait till the fag end of the financial year.

Sumit Chaudhary: Understood and second question was around this RDSP model, so are you basically exploring this RDSP model with just one bank and how do you go about selecting that bank and how would the relationship with the bank work per se?

M.R. Rao: This is a new concept. So, the banks that are more comfortable with us, for example IndusInd with whom we have BC arrangement have agreed to do the pilot and we have begun the pilot. There are few banks that we are talking to, they want to understand the dynamics a bit more on this and as a team we are engaging them, but we know that they are keen on doing it in a couple of states, so one bank wants to do it in Rajasthan in principally and we want to do it in Odisha. So, we are talking to multiple banks on this concept because for most of them this is an exciting proposition, given that it has a huge potential for not only opening savings accounts, but getting small deposits from this segment.

Sumit Chaudhary: Correct and how do you get remunerated from the bank for this like when you select let us say eventually one bank for pan India presence for even like state wise banks like do you get paid for it by the bank for the float that you end up generating for the bank effectively or how would that relationship eventually work?

Ashish Damani: This has to be evaluated overtime as this is a pilot to understand these dynamics, which will play out eventually, but for us what is more meaningful is not the BC fees, it is more about efficiency, Center meeting time reduces to half and that doubles the productivity at the loan officer level, which drives the overall cost structure.

Ritesh Chatterjee: We have done a pilot, there are people with recurring deposits for most of our clients, the numbers are quite promising for the banks and we are quite convinced, as the banks will like the proposition.

Sumit Chaudhary: Understood. Great and good luck for the coming year. Thank you.

Moderator: Thank you. The next question is from the line of Rishabh Parekh from Sunidhi Securities. Please go head.

Rishabh Parekh: Can you just focus through the yield provisions once again? You have assumed Rs.190 Crores on account of overdue portfolio for more than eight weeks, can you just walk us through the calculation again?

Ashish Pipaliya: Referring to Rs. 432 Crores portfolio on slide 55, Rs. 371 Crs is 8-25 weeks, Rs. 5 Crs > 25 weeks, Rs. 56 Crs > greater than 8-25 weeks but expired contracts, so if you look at the row F ~ Rs. 350 Crs number, where these customers are willing to repay and the willingness is identified by the fact that they have been repaying in at least last two weeks, once you subtract the number you get a residual exposure of Rs. 363 Crs, if you look at gross NPA based on ageing classification, you are looking at Rs. 432 Crs, but from operational perspective you are looking at only Rs. 363 Crores number and based on our provisioning policy, we have taken Rs. 241 Crs provisioning against Rs. 432 Crs already in this quarter, if you take operational perspective Rs. 363 Crs - Rs. 241 Crs = Rs.122 Crs should come as incremental provisioning. If you take accounting approach it will be Rs. 432 Crs – Rs. 241 Crs = Rs. 191 Crores.

Rishabh Parekh: My second question is the reduction in interest on portfolio, which is on all balance sheet portfolio is about Rs.60 Crs this quarter if you look at it quarter-on-quarter, would you classify these as one time issues or would you expect these to continue, the yield reduction, etc., to continue in FY2018 as well?

Ashish Pipaliya: If you go to slide 64, difference is primarily on account of about Rs.19 Crs to Rs.20 Crs on account of interest reversals, because of NPA classification then second is we also had reduction in the on-balance sheet portfolio because we actually sold portfolio, three assignment transactions and one securitization transaction in this quarter, so there is actually bit of movement as you can see there from on balance sheet to off-balance sheet interest income. So, this yield reduction is as you can see is temporary.

Rishabh Parekh: Right and out of this Rs.363 Crores of net overdue more than eight weeks how much would you expect to recover based on your ballpark estimate?

Ashish Pipaliya: we are considering data as of March 31, 2017, and even as far as the guidance is concerned we are not trying to build any forward positions. We are taking March 31st as a cutoff date and Rs. 435 Crs profit after tax and if you add Rs.250 Crs provisions/write-offs we are talking about Rs. 685 Crs pre-provisioning operating profit, as we explained earlier there would be some recovery, in fact just to give indication on U.P, which was 74% cumulative collection efficiency in December since demonetisation, the Gross collection efficiency now is ~ 96 to 97%, so I think the state where we have most of the overdues is from Maharashtra today with 84% Gross collection efficiency, I think as the situation improves in Maharashtra and some of the other pockets, we should see some recoveries against these provisions.

Rishabh Parekh: But right now, you do not want to put a number to quantify it?

Ashish Pipaliya: Yes, we do not want to put a number and even for guidance perspective we took cut-off date as March 31st, and looked at that number on the rolling basis.

Rishabh Parekh: Okay. Thank you very much.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Ashish Damani for closing comments.

Ashish Damani: Thank you all for joining on the call. If there are further questions, please you can reach out to our investor relation's team and we will be happy to take them. Thank you.

Moderator: Thank you. On behalf of Bharat Financial Inclusion Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.