

TruCap Finance Limited
Q2 FY23 Earnings Conference Call
15 November 2022

Moderator: Ladies and gentleman, Good day and welcome to the Q2 FY 23 Conference Call of TruCap Finance Limited. As a reminder, all participant lines will be in listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to sir.

Anuj Sonpal: Thank you. Good evening, everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of TruCap Finance Limited formerly known as Dhanvarsha Finvest Limited. On behalf of the company, I would like to thank you all for participating in Company's Earnings Conference Call for the Second Quarter of the Financial Year 2023. Before we begin, I would like to mention a short cautionary statement, some of the statements made in today's concall maybe forward looking in nature, such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by an information currently available to the management. Audiences are caution not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now, I would like to introduce you to the management participating in today's earnings conference call and give it over to them for their opening remarks. First we have with us Mr. Rohanjeet Juneja – Managing Director and Chief Executive Officer, Mr. Sanjay Kukreja- Chief Financial Officer, Mr. Mahendra Kumar Sarvaiya – Chief of Credit and Risk, Mr. Sumit Khanna – Head of Digital Credit Product, Mr. Gaurav Bhargava – Head of Gold and Branch Business. Without any further delay, I request Mr. Rohanjeet Juneja to start with his opening remarks. Thank you and over to you sir.

Rohanjeet Juneja : Thank you Anuj and welcome to all participants in joining our fiscal 2Q 23 Earnings Call. We are pleased to announce robust disbursement growth of 34% year-over-year to 1.98 billion, up from 1.63 billion in June 2022 and 1.49 billion a year ago, led by MSME gold and business loans. This has resulted in revenues rising 103% year-over-year to 305 million and earnings for the first half of the year growing 96% to 380 million rupees versus 193 million rupees in the first half of last year. Our loan book at the end of September was 4.54 billion up 92% over the last one year and up 15% quarter-over-quarter. The product composition of our loan book today is 47% in

MSME gold loans, 45% in MSME business loans, 5% in loan against property which is in runoff mode, and 3% in personal loans. Customer count, which was 1318 customers in September 2020 and 24,800 customers and September 2021 is up to 57,150 borrowers at September end, up a staggering 4,336% in the last two years, and up 130% in the last one year.

Importantly, we have disbursed more than 22,500 loans in the quarter, averaging close to 300 loans per working day with an average ticket size of roughly 18,000 rupees per loan. As a matter of great pride for the organization. We recently achieved a big milestone of this percent more than 10 billion rupees in loans since inception to over 107,000 borrowers. This growth has been built on a solid risk management framework where asset quality and concentration risk are not compromised. Rather strengthened to ensure growth with diversification and profitability.

Of the total 10 billion rupees disbursed in over 107,000 loan accounts, more than 46,000 customers have already paid back and closed loans worth 4.73 billion. In the MSME gold loan vertical, our team has disbursed more than 5.62 billion to over 52,000 borrowers. NPS in the MSME gold loan book are very low at 30 basis points and gold taken to auction on less than 20 million for less than 200 Customers representing 35 basis points of cumulative disbursements. It is noteworthy that we have recovered more than 100% of the due amount from gold sold in auctions and refunded excess recovery of principal plus interest to borrowers.

Similarly, in Business Loans. We have disbursed more than 3.25 billion to over 39,000 borrowers while writing off a minor 0.7 million or 0.02% of cumulative disbursements. In this portfolio, the cumulative disbursement of 8.9 billion between gold and business loans, which is the predominant focus of the company has resulted in gross NPS of 1.19%, which is extremely resilient in our view.

How did we do this? I think it's important to recap and give some color on how TruCap has successfully navigated and grown through the IL&FS and COVID crisis despite its nascent size and young existence. From September 2018 onwards, the company recalibrated strategy to focus on small ticket business loans to retail Cash and Carry businesses or what we call essential goods segments.

At first, we focused on 22 different sectors that were categorized as essential goods and lending to these sectors comprised 26% of total AUM in fiscal 20. These sectors essentially worked retail shops catering to home needs like hardware, electrical stores, plumbers, tailors, retail furniture, shops, etc., textiles and Apparel stores, education FMCG food and drink information technology, e commerce Karana and general stores and medical stores. From June 2020 onwards, we narrow down the sectors further whether credit team categorically avoided those sectors that were affected due to the pandemic, the focus of lending was strategically shifted to those sectors within essential goods where there was visibility and business continuity and growth. We did not lend to any borrowers that defaulted during COVID or that had applied for a moratorium. This was a subjective call taken by the credit team on a case to case basis.

Amongst other things, our in-house credit team also made changes in the appraisal process by assessing cases on banking habits rather than simply relying on DSCR and IT returns a borrowers. Today, lending to these essential goods sectors comprise 60% of total AUM, which has placed us in very good stead as these vintages have matured. Going forward, we will continue to drill down in lending to these small businesses in these sectors.

Furthermore, as a way to make the balance sheet more capital efficient as highlighted in previous forums, lending to these essential goods sectors through lending as a service, or LAAS will continue to be emphasized. Lending As A Service is when TruCap leverages its distribution progress to serve as a minority capital provider, but performs the entire sourcing servicing and collection function for large financial institutions. Our last book today is up to 20% of AUM from 12% in the previous quarter and less than 1% a year ago. In absolute numbers, LAAS is up to almost 900 million rupees of our 4.55 billion AUM. Notably, the majority of our LAAS book has been originated for one partner today in an 80:20 partnership where we are originating between 200 to 250 million a month. Happy to tell you that we have recently tied up with two other partners for our LAAS business in the MSME business loan and gold loan product, one a large NBFC in 90:10 co-lending module and the other one a small finance bank for 100% BC module.

As we continue to scale up our distribution muscles, both in digital and the experiential center channel, which today stands at 61 branches, but it will be closer to 75 by February 2023. We are fairly confident of doing more than 700 to 800 million a month just for these large financial years in coming quarters.

Now, I will let my colleague Gaurav Bhargava provide some more color on our expansion of experiential centers in his comments.

Gaurav Bhargava:

Thanks Rohan. Good evening to all the participants. In Quarter 2 FY 23, We have disbursed close to INR 1.5 billion in MSME gold loans, of which close to 680 million was disbursed for one of our LAAS partners upfront 460 million in the previous quarter. This quarterly run rate represents roughly 8 million of gross disbursements per branch per month, which we endeavor to take up approximately 10 to 11 million per branch per month, especially as we embark on large relationships in Lending As A Service for big financial service institutions. The quality of the book remains pristine, with extremely low GNPs of 5.9 million rupees or just 0.28%, 18 loans out of a total active customer base of 19, 475. Loans taken into auction until September 22 amount to a very modest 18.9 million ,where we have received 107% of the principal plus interest demanded in auction. This signifies the point that valuation of gold even for the auction pool was fairly conservative, as the amount received during auction was more than that demanded. This 18.9 million pool auctioned is 0.35% of the overall gross disbursements done till September 22.

With regards to process and controls, we have a dedicated team of four internal controls employees who visit or audit the branch network at a random unannounced frequency. During

their visit, they do 100% audit of gold jewelry kept in the packets, along with 100% loan documentation, release of documents and any other process related documents.

Our branches are covered with 24x7 CCTV monitoring, hence the auditor also checks the customer presence in the branch at the time of pledge and release of ornaments

In the Audit Checklist, we have a comprehensive list of 130 audit points divided across 12 processes. These audit points are further segregated between high, medium and low risk criteria's and further derives the audit rating of the branch. The internal control team is an independent vertical and reports in to the audit head who further reports into the MD and CEO of the organization.

On our expansion plans, over the last two and half years we have kept spreading our branch footprint across the states of Maharashtra, Delhi NCR, Goa and Madhya Pradesh. By March 2022, we were at 37 experiential centers, and as we speak today, we are at 61 Live experiential centers set up across 26 cities, towns across these four states. Our geography presents is structured around a cluster based approach, and in our current expansion plans, we are opening five to six branches in the Kutch belt of Gujarat by December 22. We also made further inroads in Maharashtra where we are planning to add another seven branches by December 2022. All these locations are finalized and manpower onboarding is in process. This would take our experiential center count upto 75 by March 2023. Post this build out more than 65% of our experiential centers presence would be in the Tier two, three, four towns, where there is a great untapped potential to be encashed, as these towns are surrounded by 30 to 40 nearby villages. That's where we see the best opportunity to serve the underserved and underpenetrated market, which forms the core of India too. This widespread distribution network, especially in the rural areas will enable us to cater to even larger relationships in lending as a service for big financiers.

Now handing it back to Rohan.

Rohanjeet Juneja :

Thank you Gaurav. Lastly, coming onto our balance sheet, asset quality and risk. Our debt to equity ratio today is 1.5x providing substantial headroom for growth. Our capital will go a much longer way led by scalable and sustainable lending as a service which is materially profitable and capital efficient for TruCap balance sheet. Gross NPAs in the quarter improved to 2.8% versus 3.06% in the previous quarter. I think it's important to break down gross NPAs product wise, since in our total gross NPA pool of 2.8%, almost 60% of NPAs come from our LAP and personal loan portfolio which is 8% of total loan exposure. These two portfolios are in runoff mode. Within the LAP and NPA bucket, the majority is attributable to 10 accounts, which is down from 12 accounts in the previous quarter, and within the process of resolution on all these 10 accounts. If we exclude LAP and personal loans from the NPA mix, gross NPAs on our focused loan book of MSME gold and MSME business loans, which is 93% of AUM would have

been approximately 1.2%. To give some more granularity, product wise, gross NPAs in MSME business loans were 2.14% while gross NPAs in business loans were 0.28%.

Now, we have finished with our prepared remarks, and we would like to hand over the call for questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may enter "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. Anyone who has a question may enter "*" and "1". Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Our first question is from the line of Yogita Rathode, an individual investor. Please go ahead.

Yogita Rathode: Good evening all, so my question is, can you talk about how does the company compete from the banks and the new FinTech entering into the Gold loans, offering loans at cheaper rates, and when do we plan to get into digital lending of loan?

Management: To answer your second question first, how when do we get into digital lending? The idea for us is to enhance the lending experience by including more and more of a digital experience for our customers. Will we be an end to end digital player? The answer to that is no. We will use technology as a significant enabler and reducing the turnaround time enhancing productivity and getting a lot more scale in our business for both the business loan and the gold loan product. So that's the answer to your second question.

On your on the answer to your first question. While there certainly is competition from banks and other NBFCs, think we have carved a niche for ourselves in the geographies that we do operate, and specifically in the five states that we have targeted, we have a very cluster focused approach and where we are opening branches and actually tying up with these larger financiers in lending as a service and partnering with them, and helping reach the last mile customer and credit inclusion for the last mile customer. So it's actually a more collaborative approach. In fact, in this past quarter, we have seen competition declined somewhat in the market, especially in the two products that we operated.

Yogita Rathode: Okay I get it. I have a second question. What is the payback period when you open a branch? Like with around 59 branches open in north and west of India, what is the breakeven point for the branches and how many has already been breakeven?

Management: I would not like to give you a specific number in terms of breakeven, but I can tell you that the usual breakeven especially as we tie up the larger financiers and lending as a service, that

timeframe has gotten shorter to about six to eight months, and sorry, the second question you had was... Yeah, so of the 59 branches, about 34 to 35 have broken even.

Yogita Rathode: Can you please repeat?

Management: Of the 59 branches that we have today 34 to 35 have broken even.

Yogita Rathode: Okay, great. I have one more followup question regarding this, like, what is the target AUM that management is targeting, and if you can give some insight on what shall be the optimum product mix, that you are looking at the target AUM level?

Management: We would not like to give specific guidance on the AUM number for fiscal year end, I think, you know you can derive for yourself, there are at about 455 crores at the end of September with another six months to go for our disbursement trajectory with the number of branches that we have, so that's one. Number two is the optimal mix for us in the two products that we are going growing today, the two products together are 93%. The gold loan product is 48% and the business loan product is 45. In terms of AUM... managed AUM, I think those numbers would stay where they are we plan to do it around 50:50 or 55:45.

Yogita Rathode: The largest mix will be coming from?

Management: Larger mix in terms of AUM would be business loans just because business loans stay on your book for longer. Gold has a much faster churn and the duration of those loans on gold are much shorter on your loan book.

Yogita Rathode: Okay so going forward it would be same

Management: Sorry, I couldn't hear you, going forward...?

Yogita Rathode: Going forward it will be targeted at the same level

Management: Correct.

Yogita Rathode: Thank you sir.

Management: Thank you.

Moderator: Thank you. A reminder to our participants, if you wish to ask a question, you may enter "*"and then "1".

The next question is from the line of Sameer, an individual investor. Please go ahead.

Sameer: Good evening, sir. My first question is that our borrowing costs seems to have increased this quarter, so could you highlight the reasons for the same?

Management: The borrowing costs increase in the quarter due to the repo rate hikes that were done by the RBI, so in the last six months, the RBI has raised the repo by about 190 basis points, and that was clearly passed on to us as well from our lenders. That's the reason the borrowing costs for us went up from 11.93% to 12.3% in the quarter.

Sameer: Okay sir, so another question that I have is that our capital adequacy ratio has declined on half yearly basis, so what's the reason for the same?

Management: Capital adequacy has declined, and it's still very healthy, though at almost 40%. The reason being that the book has grown fairly well, what we are doing now if you look at our disbursements in the previous quarter as well of the 198 crores, 68 crores came from the co-lending partnership, where we don't provide too much capital 80% of the capital is provided by a large financial institution. Progressively now we are doing between 20 to 25 crores a month with them, and we are looking to tie up with more such partners, so the balance sheet will become more capital efficient, which means that we will contribute less capital towards every incremental rupee of disbursement that we will be making. So, while the capital adequacy has come down, because we have grown nicely, it's still extremely healthy at 40%. Please do also remember that there's another infusion of about 28 crores that has yet to come into the company in the form of equity for conversion of warrants into equity shares, which is until November of 2023. So from that standpoint, we are at an extremely comfortable position, and we plan to grow the majority of our book now in co-lending partnerships with larger financier which makes our business model even more capital light.

Sameer: Okay sir, and also, could you please throw some light on the fees and the commission advisories which also seems to have increased on quarter-to-quarter basis?

Management: Yeah, so you know, as we grow our branch count as well and the digital distribution engine, fee income for us will continue to grow as well. You know, as we have had our evolution and our becoming slightly bigger, there's more cross sell income, fee income commission income coming into the model as well from insurance and other services.

Sameer: Okay sir, and one last question that I have is that I would like to know that what is the net interest margin for Q2 FY 23, and what would be your outlook for the entire FY 23?

Management: The net interest margin is just under 9%, for the quarter that went by to Q2 2023, and going forward, we expect between an 8% to 10% margin that's largely led by, NIM accretion by these lending as a service partnerships or be it of course, we have to take into account that the repo rate hike has also made the funding cost go up; otherwise, you would have seen the margin go

up more. So what we are guiding for is between an 8% to 10% net interest margin for the rest of the fiscal year.

Sameer: Okay, that is it from my side. Thank you.

Management: Thank you.

Moderator: Thank you, anyone who has a question may enter "*" and "1".

The next question is from the line of Vikas Mehta, an individual investor. Please go ahead.

Vikas Mehta: Hello sir. If you could just throw some more light on the co-lending partnership, I remember in the last quarter, you mentioned that there are four active discussion and currently you mentioned there are two active co-lending partnership in which you are discussing. Can you just throw more light on it, the ratio and how is it going to be majorly focused on, and at the end of FY 23, what would be the ratio, how much it will be coming from the off the balance sheet item and on the balance sheet item?

Management: At this point in time, we have one large active co-lending relationship with a PSU Bank. We have signed up two other relationships, one with an NBFC for the business loan product, one with a small finance bank in a BC partnership, so that's not a co-lending partnership with a BC partnership for gold. We are also in discussions with a few others, and we hope for some of them to materialize. Obviously, we will have to be fairly careful with how many partners we tie up with because it has to be a very calibrated and focused approach per branch per partner, so that is something that we are deeply focused on. We have guided earlier in the year that by the end of March 2023, these co-lending partnerships, or lending as a service AUM, as we call it will be about 20% of AUM by March 2023. We are already at 20% of AUM in September, would not work want to give a specific number as to where we would be as a percentage of AUM by March 2023, but needless to say, it will be well above the 20% number where we are right now.

Vikas Mehta: Okay sir, and what is the BC model, which you mentioned into the gold, if you could brief on that?

Management: We would normally use our distribution engine to source business for a bank, where 100% of the loan would be put onto the bank's balance sheet while we get a fee for what we are doing for the bank, which is largely on sourcing, servicing and collecting on the gold loans.

Vikas Mehta: Okay sir, and lastly sir Dhan Setu went live, I believe in the month of April, May, so sir how has that been? Have you seen the number of customers increase from Dhan Setu? Can you give me a good break up there?

Management: Sure. Dhan Setu, we have seen decent traction. Dhan Setu is predominantly sourcing loans for us in the business loan category. So we have seen steady progress, slow and steady progress

on that platform, and we have been fairly calibrated in how many loans come into the platform versus what goes into the back end and the output as to how much we want to disperse on a monthly basis. So we have selectively open it up in particular pincode, not open it up all over. The reason being that we want to write the majority of these business loans also in the geographies that we have a physical presence in, so it makes collections much easier for us.

Vikas Mehta: Okay, and now if going to talk about Finflux, your algorithm based on the underwriting, how's that been going?

Management: Finflux essentially is a loan management system. So there are certain, you know, obviously, it's the backbone of what we do from a loan management standpoint, I don't think I would like to talk too much about any kind of algo lending because that is not the focus of the company, but essentially, that is the heart of the processing of at the backend of what we do in our lending business, and it's going well so far.

Vikas Mehta: Lastly, I believe earlier you were the you even talked about Money Rabbit in the previous quarter, so what has that been as per the new RBI guidance any update there?

Management: No update over there. We have spoken about it on the previous quarters call as well that as of now Money Rabbit has been put on hold. The reason being that the focus predominantly of the company is to make sure that the NBFC scales in a much larger way. So the biggest focus for all of us at TruCap is to scale in the gold loan and the MSME business loan product and to serve as a partners in lending as a service for large financier and to make the book much bigger. We will relook at Money Rabbit and some of the other digital platforms that are in our city at a later time, when we feel the environment is more conducive.

Vikas Mehta: Okay sir, thank you so much.

Management: Thank you.

Moderator: Thank you. Anyone who has a question may enter "*" and "1" on your touchtone telephone.

As there are no further questions from the participants, I now hand the floor back to the management for closing comments. Over to you sir.

Management: Thank you everyone for joining our call. We look forward to talking to everyone in January or February of next year. All the best.

Moderator: Thank you. On behalf of TruCap Finance Limited, that concludes this conference.