

**TruCap Finance Limited**  
**Earnings Conference Call**  
**February 14, 2023**

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Q3 FY23 Conference Call of TruCap Finance Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

**Anuj Sonpal:** Thank you. Good morning everyone and a very welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of TruCap Finance Limited. On behalf of the company, I would like to thank you all for participating in the company’s earnings call for the third quarter and 9 months ended of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today’s call 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 management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today’s earnings call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in today’s earnings call I will hand it over to them for opening remarks. We have with us Mr. Rohanjeet Juneja – Managing Director and Chief Executive Officer, Mr. Sanjay Kukreja – Chief Financial Officer, Mr. Mahendra Kumar Servaiya – Chief of Credit and Risk, 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. Welcome to our earnings call today. In Fiscal Q3 23 we reported disbursements of 2.12 billion up from 1.98 billion in September 2022 and 920 million a year ago led largely by MSME gold and business loans. We disbursed 21,838 loans in the quarter versus 22,616 loans in September 2022 averaging close to 291 loans per working day. Total active customer account which was 2,315 in December 2020 and 23,955 in December 2021 is up to 65,000 today. This shows the granular nature of our loan book given an average ticket size of Rs. 0.1 million. Total AUM at the end of December 2022 was Rs. 5.1 billion up 12% quarter over quarter and up 98%

year over year. The product composition of our loan book today both on and off balance sheet is 49% in gold loans, 45% in MSME business loans and 4% in loan against property and 2% in personal loans which are both in run off mode.

We opened more branches and budgeted earlier in the year given the strong pipeline of lenders who we have and will be tying up with in lending as a service. We are extremely confident that this will create substantial franchise value for us since committed lines from these relationships are large which makes it imperative to increase our branch network. Gross NPAs were flat at 2.8% versus 2.92% a year ago as disclosed in prior quarters 57% of NPAs comes from our LAP and personal loan book which today comprise about 6% of total AUM both of these are in run off mode. Within the LAP bucket we have resolved 3 of the 12 NPA accounts and expect to resolve another 2 NPA accounts very shortly. This is in line with our guidance of resolving 6 of the 12 NPA accounts in the current fiscal. If we look at just the gold and business loan book which is 94% of AUM today gross NPAs would have been 1.32% this is the good part.

Now why were quarterly results softer than we anticipated? There were a few dynamics playing out from August and September 2022 that we spoke about in the prior call that impacted this quarter results particularly with the net interest margin compression and higher operating expenses. On each of them individually net interest margin compression resulted largely from both the asset and liability side. The bigger impact came from the liability side with the RBI having raised rates 250 basis points to 6.5% since early May. Most lenders started passing on these rates hikes to us from June and July. The bulk of it came from early August and September onwards given that it is hard for us to pass on these rate hikes to our borrowers especially in the gold loan product which comprises about 70% to 75% of our disbursements today there was margin compression in the quarter.

On the asset side while interest income was up strongly year over year at 240 million, it was flat quarter-on-quarter because we are writing more MSME gold loans from July 2022 onwards which are originated at a lower yield relative to business loans. On operating expenses which were higher than anticipated largely due to expediting the experiential center branch build out. We were at 59 experiential centers on September 30th but given the strong traction and tie ups with large lenders and lending as a service we felt the need to ramp up our experiential center accounts further and faster. We have 74 sub centers today 10 centers ahead of what we had planned. This means an additional 40 resources in these branches along with Rs. 1.2 to Rs. 1.3 million CAPEX and OPEX for opening of each branch. To reiterate we are extremely confident that this will create significant franchise value for us and further build out of this network to write more lending as a service business with these large lenders as imperative.

Lastly, on the quarter if you look at earnings on an adjusted basis on EBITDA it was actually higher quarter over quarter and year over year showing that the larger impact came from NIM compression. Besides quarterly earnings, which can be volatile from time to time we wanted to give some color on where we are as an institution today and what we are looking to build.

As an organization we have cumulatively disbursed more than Rs. 12 billion in loan since inception to over 129,000 borrowers. Of this total 12 billion disbursed almost 64,000 borrowers have already repaid our loans and closed worth Rs. 6.2 billion with us having seen two full repayment cycles across both the business and gold loan product. This implies healthy vintage and a proven track record in both these products. In the gold loan vertical our team has disbursed more than Rs. 7 billion to over 65,000 borrowers. NPA in the gold loan book are very low at 17 basis points and gold taken to auctions are just over Rs. 36 million for less than 484 customers representing 0.5% 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. We have 74 branches today spread across Maharashtra, Madhya Pradesh, Delhi NCR, Goa and Gujarat. Our expansion will continue in Gujarat and Maharashtra while we propose to enter Rajasthan in Fiscal 24. Similarly, in business loans we have disbursed more than Rs. 4 billion to over 47,000 borrowers over last 4 and half years. Our focus on essential goods sector which comprise of the following. Retail shops catering to home and office needs like hardware, electrical, plumber, tailor, retail furniture shops etcetera, textile and apparels, education, FMCG, food and drink like Kirana stores and general stores, information technology, ecommerce and medical shops has placed us in good stead. As they say better lucky than good our focus on these sectors despite COVID and other economic headwinds has really helped with the gross NPA performance which is at only 2.63%.

To give investors more colour approximately 16% of this business loan vertical was originated in Fiscal 19 and 20 that resulted in gross NPA of about 6% due to the ill effects of the lockdown from the pandemic. The remaining 85% of this book has been disbursed in Fiscal 21, 22 and 23 that has resulted in gross NPAs of just 0.7%. This substantial improvement in vintage performance has resulted from increased focus on the essential goods sector which today contributes to the line share of MSME business loans. Now on our growth path going forward most NBFCs at some point have to decide on what is their mode or differentiation strategy. For the large part it comes down to capital or distribution other than technology that has been the darling in the last few years. From April 2022 onwards we as a company decided to strongly focus on distribution and make the balance sheet more capital efficient by tying up with large lenders and lending as a service.

Lending as a service is went through cap leverages its distribution progress to serve as a minority capital provider, but performing the entire sourcing servicing and collection function for large financial institutions that contribute the lion share of capital lend to a borrower. At December end we are lending as a service book of 1.2 billion versus 848 million in September 2022 and just 28 million a year ago. Notably our lending as a service book is now being originated for three partners up from one partner in the previous quarter and a year ago.

On a monthly basis almost 30% of disbursement volume is now being originated in lending as a service from these partnerships. As we continue to scale up our distribution muscle we are fairly confident of doing more than Rs. 1 billion in monthly disbursements from the April quarter onwards of which almost half will be contributed by these partnership. Through this not only will we make the balance sheet more capital efficient, but the P&L will also become more profitable hence accretive to ROA in coming years. However, confident of doing this level of monthly disbursement from April 2023 onwards.

In March 2021, we did Rs. 404 million of quarterly disbursements of which zero came in lending as a service versus 1.4 billion in March 2022 of which only 64 million came from lending as a service partners. In the most recent quarter we did 2.12 billion of disbursements of which approximately 30% came from lending as a service partners where we are only providing 20% of capital. We have been able to achieve this as we kept spreading our branch footprint across the states of Maharashtra, Madhya Pradesh, Delhi NCR, Goa and now Gujarat. In March 2021 we had 10 branches versus 37 in March 2022 we added 37 branches in the first 9 months of this fiscal with 15 coming in the most recent quarter.

These 74 branches are spread across 33 cities and towns and our geographic presence is structured around a cluster based approach in MSME centric belts more than 75% of our network presence is in Tier 2, Tier 3 and Tier 4 towns where there is great untapped potential to be encashed as these towns are surrounded by 30 to 40 villages that is where we see the best opportunities to serve the underserved and under penetrated market which form the core of our strategy. With increasing disbursement, risk and audit which was always robust has been bolstered further. We have a dedicated team of internal control personnel who audit the entire branch network on an unannounced frequency. In the audit checklist we have a comprehensive list of 130 audit points divided across 12 processes. These audit points have further segregated between high, medium and low risk criteria which then derives the audit rating of the branch.

Lastly, the internal control team is an independent vertical that reports into the audit head to further reports into the head of credit and then the MD and CEO of the organization. With this, we conclude our prepared remarks and open the floor to questions and answers.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Devarsh Mehta as an Individual Investor. Please go ahead.

**Devarsh Mehta:** So as you mentioned we have seen a decline in the interest income on a quarter-on-quarter basis, so if you could just throw some light on that to know the exact reason why there has been a decline here?

**Rohanjeet Juneja:** So, if you look at our results from April 2022 onwards the composition of disbursements has been skewed to about 70% to 75% on gold loans which are originated at a lower yield relative to and unsecured business loans so that was one reason. The other reason also is in the October

to December quarter there usually is a faster churn on gold loan repayments and prepayments which come in due to the holiday and festive season because of which there was an impact on interest income in the quarter.

**Devarsh Mehta:** And your fee and commission income has grown well both on quarter-on-quarter and year-on-year basis vis-a-vis the fee and commission expense has not increased so much, so why so much disparity between the two?

**Rohanjeet Juneja:** As the branch count has gone up we have added 37 branches in the first 9 months of this fiscal as you train all the sales personnel as well as on the cross sell of product the fee and commission income usually goes up with that, that will continue to be a feature for us as the branch network continues to go up. It is always fees and commission will come with a lag because the first product that most sales personnel in the branches will want to sell as a loan post which they will start cross selling other products.

**Devarsh Mehta:** And also to come on your cost of borrowing what is it currently I am asking this because there has been an increase in the repo, so have we increase the yield on the products?

**Rohanjeet Juneja:** It is hard for us to increase the yield on the asset side to our retail customers given the fact that they are really small micro, small, medium enterprise business owners, individuals etcetera. So, it is hard for us to pass on the rate hike especially in the gold loan product due to which there was margin compression. The cost of borrowing for us has gone up it is about 13.1% today, the way to mitigate cost of funds from going up further would be as we write more and more lending as a service business where large financials where they do 80% of the financing at a fixed hurdle rate and we do 20%. So, technically then the variable rate on the funding would be on the 20% that we would be providing whereas the 80% funding that is provided by larger financier get funded at a fixed rate.

**Moderator:** Thank you. The next question is from the line of Manav Kapasi as an Individual Investor. Please go ahead.

**Manav Kapasi:** So, just wanted to understand that the current GNPA of 2.8% how much of it is coming from LAP and personal loans and by when can we expect these loans to be eliminated and also you know how could you segregate the loan book especially in the stage 3 category in both the products?

**Rohanjeet Juneja:** The answer to your first question is of the 2.8% NPA about 57% come from the LAP and personal loan book which is about 6% of AUM today and that is in run off mode and that number has been in terms of AUM has been declining almost every quarter and we had said that it will be below 5% of AUM by March 2023 we are on track for that. There are two LAP loans in specific that we expect to resolve in this current quarter itself. So, hopefully you will

see that reduction going forward again that has yet to happen. Sorry could you repeat your second question please.

**Manav Kapasi:** How would you segregate the loan books especially in the stage 3 category in both our products LAP and PL?

**Rohanjeet Juneja:** So, the LAP is predominantly in Bombay and Pune and the PL also is largely in the state of Maharashtra only.

**Manav Kapasi:** Also what is our current provision coverage ratio as of Q3 FY23 and what sort of target levels can we expect in the future?

**Rohanjeet Juneja:** So, our provision coverage level has gone down to about 30% as we have been writing more and more gold loans. We have taken a note to the board on the provision on the LGD etcetera which we as a listed company have to do every year in terms ECL coverage. So, you will hear more about that in the next quarter.

**Manav Kapasi:** One final question can you please throw some light on the gold loan segment the increase comparative intensity in the industry which has led to the degrowth of AUM of the big gold financial like Manappuram etcetera, so how do we sort of plan to compete here?

**Rohanjeet Juneja:** So, there is competition across industries however the potential is huge and we are basically focusing more on the Tier 2, Tier 3, Tier 4 which is under served and under penetrated. So, like around 75% of our branch network is comprising of these geographies and further also we will try and focus in those geographies only. So, that is the basic logic why we have been growing consistently and we have been trying and booking loans on a daily basis more number of loans that is the basic point.

**Moderator:** Thank you. The next question is from the line of Karan Bhanushali as an Individual Investor. Please go ahead.

**Karan Bhanushali:** Just wanted to ask what kind of agreement have we entered with Aubrey capital is it co-lending?

**Rohanjeet Juneja:** Yes it is a co-lending agreement.

**Karan Bhanushali:** And also can you please explain the BC model with Shivalik Small Finance Bank?

**Rohanjeet Juneja:** For Shivalik essentially we are an originator of gold loans from our branches in two states and essentially 100% of the capital is provided by them while we do the sourcing servicing and the collection all those loans.

**Karan Bhanushali:** At what ratio?

**Rohanjeet Juneja:** It is a 100% on their books because it is a BC relationship so that is not a co-lending partnership. It is a 100 zero which is BC so all the loans are being written on Shivalik's balance sheet.

**Karan Bhanushali:** Sir we have entered in a co-lending partnership with Central Bank of India in about a 1,000 crore in the ratio of 80-20, so is there any amount of disbursements decide for every quarter in the agreement and also any default year and with the Central Bank of India is it completely digital interface for co-lending?

**Rohanjeet Juneja:** So on a quarterly basis at this point and there is no fixed number that we give them, but on average as I mentioned we are doing about 30% of the monthly volume now for them. So, in the last quarter the disbursement number for Central Bank of India was North of 60 crores, what we are doing now incrementally on a monthly basis higher and higher as the number of branches go up for us. On the other part of your question on the tech integration it is still in process that is the hardest part of the entire legwork that has been done in any co-lending relationship be it with any partner as the tech integration. So, it is still in the final stages of getting implemented.

**Karan Bhanushali:** And also sir going back to the first question what is the co-lending ratio of Libero Capital?

**Rohanjeet Juneja:** That is 90-10.

**Karan Bhanushali:** And lastly one question your thought process to integrate EZ capital with TruCap we used to do with co-lending with them right?

**Rohanjeet Juneja:** In the gold loan product correct.

**Karan Bhanushali:** Are we planning to integrate with EZ capital?

**Rohanjeet Juneja:** So, that is what we have updated the board and the investors that is right now waiting regulatory approvals. So, there is only so much I can say on that until regulatory approval is accorded.

**Moderator:** Thank you. The next question is from the line of Devarsh Mehta as an Individual Investor. Please go ahead.

**Devarsh Mehta:** So, as we have increased our customer base can you please provide the breakup of customers on boarded digitally through Dhan Setu and vis-a-vis through the offline mode?

**Rohanjeet Juneja:** The majority of the increase in customer addition have largely been through the offline mode through the branch network. In Dhan Setu I do not have the numbers handy in terms of customer acquisition, but we can certainly follow up with you post the call and give you the precise numbers on it.

**Devarsh Mehta:** And what is our current ROA and what will be the timeline to reach our target of 5%?

**Rohanjeet Juneja:** So, the ROA at this point is 1.37% obviously our endeavor and the five year plan that we had presented was to get to a 5% ROA. We are still on track for that in terms of how do we get there. So, that is very much on track I do not think there is any deviation there, how will we be able to get there will be largely through lending as a service for a good chunk that we do which make the balance sheet a lot more capital efficient and much more profitable on a long term basis for us.

**Devarsh Mehta:** And just a follow up what will be the target mix of the product portfolio at the target ROA level of 5%?

**Rohanjeet Juneja:** So, on a consolidated basis both on and off-balance sheet AUM together gold will be a larger percentage, but if you look at just the on balance sheet component this will probably be 55% business loans and 45% gold loans.

**Devarsh Mehta:** And can you please explain lending with technology enablement as what kind of mechanism we are using for digital underwriting or say a credit decision?

**Rohanjeet Juneja:** There are business rule engine that are built into not just the Dhan Setu platform, but even the LMS that we are using and the LOS platform that we are using. So, that is the way to digitally underwrite it. If you recall I think we had spoken about it three or four quarters back the biggest challenge that we as an small institution faced two and half to three years ago just before COVID came was in the lead to log in process. So, that was largely manual and not digital in nature. Now there is a digital architecture that has been built in that has business rule engine that allows you that allows you to log in a file without manual intervention that used to be the biggest pinpoint earlier where most of the bandwidth would get used up and there would be a lot of wastage of not just time and money, but also fires due to which then from the log in to disbursement ratio the process would also take quite long and the success ratio would be lower. Now because of all the tech intervention that has happened at the frontend and at the backend and because of automating the Gologo process for a lead to log in the approval ratio and the disbursement ratio both to lead and log in has gone up substantially. So, now the question will be what kind of appetite we have to underwrite significant volume in business loans and again the larger chunk over there would be where we do it with larger lenders. We would piggyback their capital using our distribution.

**Moderator:** Thank you. The next question is from the line of Debesh Agarwal from IDBI Capital. Please go ahead.

**Debesh Agarwala:** Sir, what is the portion of co-lending in our total AUM mix and how do we expect to scale it further?

**Rohanjeet Juneja:** Today it is up to about 24% of total AUM we are hoping to scale this up to 50% over the next 18 to 24 months. We have three partnerships today which are already live and we have a few others in the pipeline that we always hear about shortly.

**Debesh Agarwala:** And what are the kinds of yields that we are getting on the co-lending portfolio, is it better than the normal portfolio or how?

**Rohanjeet Juneja:** There is also a fee that is provided for the sourcing serving and the collection function that is provided to the partner that does the entire hard yards in terms of the checklist for sourcing servicing collection etcetera. So, the yield on the co-lending portfolio is higher than what it would be if we were to write the loan on our book for 100%.

**Debesh Agarwala:** And if I look at your AUM mix distribution mix, so around 80% of the AUM comes from three state of Maharashtra, Madhya Pradesh and Delhi NCR, so are we looking forward to diversify it or it would continue in the same proportion going ahead?

**Rohanjeet Juneja:** No, it would get diversified further if you look at what the percentage of AUM mix was for us three years ago we were almost 100% in Maharashtra in March 2020. Since then we have diversified where Maharashtra today has come to just under 40%. We have also entered Goa is about 6% of our AUM today which is doing very well for us. This is the outskirts so places like Ponda, Sanquelim, Mapusa, Margao, Bicholim etcetera then we entered Gujarat as well which is about 3% of our AUM today and those two states would become bigger for us and we would be entering Rajasthan too and with that the portfolio concentration of these three states which is Maharashtra, MP and Delhi would come down in the total AUM mix.

**Moderator:** Thank you. The next question is from the line of Namit Shah as an Investor. Please go ahead.

**Namit Shah:** I remember the start of your presentation you mentioned the average amount of average loan disbursement was 1 million like if you see that is not a very great sight Rs. 1 lakh so how do you plan to scale this up any of your commentary on this?

**Rohanjeet Juneja:** The 0.1 million average ticket size that we have today is down drastically from what we had even 4 years and 3 years back. We will be maintaining in 1 to 1.5 lakh ticket which is 0.1 million to 0.15 million. It is also the kind of customer that we serve especially in the gold loan vertical. So, the gold loan MSME customers many of them are daily cash flow generating, retail cash and carry businesses that have immediately requirements that needs working capital for those businesses due to which the ticket size is lower. The business loan product the average ticket size is larger because those customers are still a little more sophisticated in terms of that borrowing history that is number one. Number two is they have all the documentation in terms of business, banking bureau etcetera with some of the smaller retail cash and carry businesses may not have to date due to which resort to lending against gold. In terms of guidance we would say that the average ticket size for us would hover in the 0.1 to 0.2 million ticket size on

an average ticket size basis obviously there are larger ticket loans that we write as well and the segment loan segment and in the business loan segment our sweet spot is the 1 to 20 lakh segment where we have two products one of them is a 1 to 10 lakh product and the other one is 10 to 20 which is for a slightly longer business vintage with some more credit borrowing history.

**Namit Shah:** So, like this 0.1 to 0.2 million amount of ticket size is this sustainable over the long term?

**Rohanjeet Juneja:** Yes it is fairly sustainable over the long term especially in the geographies that we operate. As mentioned earlier as well and in the presentation do we follow a cluster based approach in terms of where we open our branch network and physical presence along with the digital architecture that is build. So, we do not do anything that is Pan India open up in courts to lend across all states. We do it very specifically the states that we have chosen have been very carefully thought through with a very heavy MSME centric belt in mind and having seen that we have opened the network there. In that network if that average ticket size that we are targeting.

**Namit Shah:** Will it fair to assume that you would target this grow by acquiring more customers rather than improving this average ticket size?

**Rohanjeet Juneja:** Totally so that is the strategy is to get the customer into our ecosystem and once the customers in the ecosystem be able to fulfill a lot of their needs either through gold loan or a small business loan provide them various other value added services to increase fee income for us and we wanted to be as granular as possible with a very simple philosophy over there is we as an institution believe it is better to have less severity of losses if there are any potential severity of losses. So, that should be minimized it is okay if your frequency of losses is slightly wider, but the severity should be lot lesser so that a few account do not dent your GNPA ratio and your provision coverage.

**Moderator:** Thank you. The next question is from the line of Rahil Shah as an Individual Investor. Please go ahead.

**Rahil Shah:** Any comment in terms of outlook for FY24 regarding growth in overall business specifically income or in strategy of target hit, any other promising avenues TruCap is looking to pursue if you can provide any guidance there?

**Rohanjeet Juneja:** So we would not like to give specific guidance on numbers what I would say is we have had fairly healthy growth in interest income and total income both. You should continue to see a strong build up in income growth as we have seen in the past. No specific comments on precise numbers etcetera I think that you will see quarter by quarter and we are on track with what we have always discussed in terms of business strategy so there is no change over there.

**Moderator:** Thank you. Ladies and gentlemen as there are no further questions on the participants I now hand the conference back to the management from TruCap Finance Limited for closing remarks. Thank you and over to you, Sir.

**Rohanjeet Juneja:** Thank you very much for joining our earnings call today. We look forward to talking to everyone when we announce full year 2023 results which were most likely be in May. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of TruCap Finance Limited that concludes this conference. Thank you all for joining us.