Dhanvarsha

November 10, 2021

To,
The General Manager,
Department of Corporate Services
BSE Limited
P.J. Towers,
Dalal Street,
Mumbai - 400 001.

Scrip Code: 540268

Subject: Transcript of the Earnings Call

Dear Sir/Madam,

In furtherance to our letters dated October 22, 2021 and November 03, 2021, please find attached herewith the Transcript of the Earnings Call held on Tuesday, November 02, 2021, at 5:00 p.m. IST. We request you to take the same on record.

Thanking You,

Yours faithfully,

For Dhanvarsha Finvest Limited

DHANVARSHA FINVEST LIMITED

Lalit Chendvankar
Company Secretary & Compliance Officer

Encl: a/a

Dhanvarsha Finvest Limited
Q2 FY-22 Earnings Conference Call
November 2, 2021

Moderator: Ladies and gentlemen, good day and welcome to Dhanvarsha Finvest Limited Q2 FY22 Earnings Conference Call hosted by Valorem Advisors. As a reminder, all participant lines will be in the listen only mode. 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 touch tone phone. Please note that this conference is being recorded and I now the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you. Good evening, everyone, and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Dhanvarsha Finvest Limited, on behalf of the company I would like to thank you all for participating in the company's Earnings Conference Call for the second half second quarter of Financial Year 2022.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings conference call may be forward-looking in nature such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs, as well assumptions made by and 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 conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

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

Rohanjeet Juneja: Thank you, Anuj. Will come to fiscal Q2 Earnings Call and Happy Diwali to all participants listening in today for the quarter ended September 30th.

Dhanvarsha clocked its highest disbursement at Rs. 1.48 billion versus Rs. 205 million in September 2020 representing 621% year-on-year growth. This has led to assets under management rising 289% year over year to Rs. 2.37 billion.

As importantly, we have had tremendous accretion on customer count, which is up 18 times in the last year to almost 23,500 borrowers on September 30th. The average ticket size of disbursements was 83,000 in the quarter. The average ticket size of our loan book today is an extremely granular Rs. 0.1 million. All of this, put together has resulted in our highest quarterly pre-tax profits of Rs. 26 million up almost 30 times year over year with a strong net increase margin at 9.1%. Profits for the first half of fiscal '22 are already at Rs. 43.5 million, up 145% from what the company generated in all of the fiscal '21 at Rs. 17.8 million.

Almost 70% of disbursements in the quarter were led by Gold and MSME loans backed by a first loss default guarantee. The split of our loan books today comprises 35% in gold loans, 18% in business and personal loans backed by a first loss default guarantee, 13% in the loan against property, 22% in small business loans, and 12% in personal loans.

Robust disbursement growth has led to a substantial jump in revenues, which is up 150% year over year driven predominantly by an 86% quarter over quarter and 304% year on year rise in interest income. With the current disbursement trajectory, we expect continued strength in revenues going forward.

On the distribution side, we have 31 experiential centers today anchored around our gold loan product and we will be adding one to two such centers every month until the end of March 2022. We have 400 financial inclusion stores versus 163 in June and more than 55 of them are contributing to disbursement volume. As mentioned in our previous call, this is a zero CAPEX distribution channel for Dhanvarsha, which further enhances our sourcing strength to MSMEs.

As an institution that prides itself on the liability side of our balance sheet, our net worth is up to Rs. 1.63 billion and the promoter group along with key management will be infusing Rs. 150 million by the end of Jan 2022 for conversion of warrants into equity shares that were issued in November 2020. This is well ahead of the 18-month timeline that we have to infuse money until May 2022.

Our debt to equity is currently 1.1x with a capital adequacy of 58% and we aim to continue disbursing at the same pace of Rs. 400 to 415 million per month as we have done in the most recent quarter.

In terms of risk management and collections, we have been able to report 100% plus collection efficiency for all 3 months of the quarter including prepayment, part payment, and early repayment on gold loans. Excluding part payments and early repayments, collection efficiency was 79% in July, 83% in August, and 92% in September which we are confident of maintaining in the current quarter.

Given the recently released RBI scale-based regulation for NBFCs, institutions that fall in the base layer are expected to comply with 90 plus day NPA recognition in a scaled manner until March 2026. We as an institution have taken a call to comply with this from September 2021 itself. Gross NPAs under the new recognition norms were 2.9% versus 3.2% in June 2021 and 5% a year ago. Net NPAs were 1.4% versus 1.2% in the previous quarter and 2.3% a year ago. It is noteworthy that in our gross NPA pool of 2.9%, almost two-thirds of NPAs come from 9 LAP loans originated from 2017 to 2018. Excluding these LAP loans that are now in runoff mode gross NPAs would have been 1.15%. We are making all efforts to recover these legacy LAP loans that are part of the NPA bucket.

Besides the strong revenue growth, one of the other critical reasons for being able to report strong profit growth is because management keeps an extremely tight lid on expenses. Team members at Dhanvarsha are deeply incentivized with ESOP, making them part owners of the company.

While expenses have increased for substantial investment in technology, people, and branch build-out in the last 18 months, part of these investments are starting to bear fruit with our cost to income declining to 48.8% from 54% in the June quarter and 77% a year ago.

Now talking about what we expect going forward. Over the last 18 months, the company has invested in material dollars to meet our vision of digitally and physically enhancing the scale of financial inclusion in India. It is noteworthy that from inception until today, our system has clocked in over 375,000 digital applications. If we look at where we were on March 31st, 2020 with a loan book of 360 million with 403 customers on an average ticket size of 0.9 million per account, today we have a loan book of more than 2.5 billion with more than 25,000 customers translating to an average ticket price of 0.1 million per account. This is up 62x in customer count, with 6x growth in our loan book, while our net worth has risen by 5.2x since March 2020. Our debt to equity today is still fairly low at 1.1x. We are now adding between 15,000 to 20,000 customers a quarter, which will increase substantially from here on driven by two strategic initiatives that we are very excited about. These strategic initiatives are number 1, the launch of our tech assets. The first one, the Money Rabbit which is our dynamic and omnichannel credit health builder and digital lending platform powered by our very own alternate data engine focusing on MSMEs and the blue-collared workforce. This is all set to be launched soon. The platform is being specifically designed to cater and add value to the lower-middle-income population, where they get access to customize cards that can be used with a flexible wallet and bill payment system along with affordable credit lines. Our alternate data engine captures real-time data, which is self-evolving, robust, and developed in-house by our passionate technology data science and risk analytics team. This engine, post getting access to data, captures accurate insights about consumer behavior, giving us an upper hand over bureau data, which is always backdated. Along with lending and a wallet, our MVP, will be a Credit Health Check Tool. The biggest advantage of this service along with other modules is to provide an entire ecosystem for consumers credit health and financial wellness along with the ability to borrow, pay, save and invest all in one app. Money Rabbit will also empower users with multiple cashback and rewards, which will be featured and marketed systematically to increase daily app usage and stickiness. Lastly, we plan to evolve Money Rabbit into a marketplace where other financial sponsors can lend to MSMEs and the blue collared workers.

The second big tech asset for Dhanvarsha is an MSME-focused Neobank platform, which will be launched by the end of the quarter. While we are in the business of providing loans to MSME borrowers, it is imperative we look at serving our ever-growing customer base with a seamless and financially inclusive experience, which does not start and end with lending. Instead, we are looking to assist them with a seamless banking experience. The main objective of Dhanvarsha Neobank is to offer such a level of seamless customer experience that most traditional banks can't offer. That's why our Neobank will be a Fintech partner of a traditional bank that helps provide services to the under-banked. In this type of partnership and engagement, we as a Fintech will utilize a wrapper around various services and products of our partner bank and cater to MSME customers. We will be obsessively customer-oriented to provide highly personalized services.

As we now gear up to add materially higher volume and enhance success on our go-to-market strategy in tech, we have had a big show consulting firm advisors on our comprehensive tech stack and architecture for the last few months. We have also deployed a cutting-edge, fully integrated loan origination and management system to enable seamless onboarding underwriting, servicing, monitoring, and on-time collections given the large volume of business that the company proposes to underwrite over the next five years. The second strategic initiative, our co-lending partnerships with large lenders, what we call lending as a service for which the company has already tied up with the Central Bank of India. Lending as a service our partnerships with Dhanvarsha is the minority capital provider of 10% to 20% with a large lender that provides 80% to 90% of the loan amount to borrowers for gold and MSME business loans. Dhanvarsha does the entire sourcing, servicing, and collection on these loans and generates economics on 100% of the loan value. This makes our balance sheet extremely capital efficient with a healthy mix of on and off-balance sheet AUM, thereby enhancing profitability. In the most recent quarter, we tied up with the Central Bank of India for a large Rs. 10 billion gold lending partnership in MSME gold loans where they will hold 80% of the loans on their balance sheet, while we will retain 20%. There is a predetermined hurdle rate of Dhanvarsha gives the Central Bank of India for its 80% lending share. Dhanvarsha gets to keep everything in excess of the hurdle rate on the Central Bank of India, 80% contribution for originating, servicing, and collecting on these loans. While we get to retain 100% of the economics on our 20% lending share. Similar to the Central Bank of India, we are in different stages of discussions with a few lenders that we should hopefully be able to tell you about in the next few weeks, scale-up of these relationships in coming years will significantly enhance profitability and capital efficiency for Dhanvarsha. With that we now open up the floor for questions and answers.

Moderator: Thank you very much. We now begin the question and answer session. The first question is from the line of Achal Jain a retail investor. Please go ahead.

Achal Jain: I would like to ask about the collection efficiency has substantially improved, versus a year ago. Can we expect this momentum to continue and also, can you update us on the legacy LAP loans that we are trying to recover? How is it progressing and when do you expect to recover them completely, if at all?

Karan Desai: I will take the first part first, so in terms of the momentum, we are fairly confident that from here on we will be able to maintain, not only this run rate but significantly expand as we continue to raise lines that allow us to not just, deploy money from our balance sheet, but also leverage the balance sheets of our larger banking partners and Central Bank of India, of which is the first relationship that we have signed already. We have other conversations in the works and once those go live, we will be able to up the run rate from here. From that perspective, I think we are comfortable. To answer your question on the collection efficiency and the LAP portfolio specifically, the LAP portfolio is what we had underwritten in 2017 to 2018, tail end of the bull market and at one point in time, it was almost Rs. 60 crores on our balance sheet, today these portfolios are under Rs. 30 crores. So we have already balance transferred out about 50% of these old LAP loans. What remains in our book today is being dealt with in two parts. The first part, essentially being all the loans that are regular in a very systematic manner, we continue to balance transfer the loans out to other lenders, delinquent customers we employ our collection strategy which takes into account various legal tools, including proceedings under Section 138 of the Negotiable Instruments Act, arbitration proceedings and last but not the least post-March, 2021, we have also invoked our basic proceedings in a number of the loan accounts which were Rs. 20 lacs and above. From that standpoint, given our historical track record of collection, we are confident that possibly over the next 3-4 quarters, the LAP exposure on our balance sheet will have reduced significantly from Rs. 29 odd crores which stands at today.

Achal Jain: If I may ask a follow-up question, what was the average cost of borrowings for this quarter?

Rohanjeet Juneja: The average incremental cost of borrowing in this quarter was 11.4%.

Achal Jain: But, it still seems a bit higher than most other NBFCs, and where do you expect it to come down, by the end of the year?

Rohanjeet Juneja: Progressively every quarter we have brought down our cost of borrowing. At the same time last year, we were at 12.4%, right now on the overall book basis, we have taken that down 70 basis points in the most recent quarter, incrementally it was 11.4% and our endeavor obviously in the next 18-24 months is to bring down the average cost of borrowing to 10%. That will depend on several factors, which we are working towards and hopefully, we will get there. So that is a constant endeavor for us to, reduce our cost of borrowing because that will directly impact the bottom line.

Achal Jain: Coming on the provision coverage part, what is the provision coverage ratio for Q2 and how much is the company expecting it to be going forward?

Rohanjeet Juneja: The provision coverage ratio for Q2 was 52%. As we said in our opening remarks, what we did is be fully compliant with the SBR norms that the RBI recently released to go to 90 plus the NPA recognition due to which the provisions average came down. We endeavor to take the provision coverage ratio up from 52% to 70% odd, which is where we were in the first quarter or over the next three to four quarters.

Achal Jain: This will be my last question for you. How many new branches did the company open in the second quarter and how has it been in October?

Karan Desai: At this point, we stand at about 28 gold branches and 3 traditional business loan and personal loan branches. At the current trend rate we are at, we plan to open roughly about 2-3 new branches every month going forward at least till the end of the March quarter. At this point, especially for the gold loan business, the focus continues to remain on Madhya Pradesh, the state of MP, which is the latest market that we opened where we are doing the co- lending business with Central Bank of India. Over November and December, the new branch openings that you will see will largely be based on the state of Madhya Pradesh.

Moderator: The next question is from the line of Avinash Tanawade from Dalal & Broacha Stock Broking Pvt. Ltd. Please go ahead.

Avinash Tanawade: Want to know about the co-lending agreement with the Central Bank of India, can you elaborate more about the hurdle rate?

Rohanjeet Juneja: With the Central Bank of India, we have a co-lending relationship for MSME gold loans where they will provide 80% of the capital while Dhanvarsha will be a 20% capital provider. Dhanvarsha does the entire sourcing, the entire servicing, the entire collection on those loans and gives the Central Bank of India a hurdle rate on every loan that is originated. So when a loan is originated at above the hurdle date, Dhanvarsha gets to keep the 20% of the economics on the yield at which the loan gets originated, plus gets paid on the 80% that Central Bank of India disburses. It's a fairly high IRR product for Dhanvarsha and given the fact that it's MSME gold loans, which are highly secured in nature, we are very confident that this will turn out to be a very good product for the company in the long run. We started the business with them only in the middle of August, starting from one branch in Indore. Now we're in the process of adding new branches so that we can take up disbursement volume significantly in this relationship.

Avinash Tanawade: Is there any kind of first loss default policy or some kind of addition, if there is a certain post NPA, first 10% NPA or first 20% NPA we have to take or any kind of NPA policies we have?

Rohanjeet Juneja: Central Bank of India gets a hurdle rate on every loan, which is fairly modest given the weighted average lead that which the product is being originated, but there is no first loss default guarantee, but there is a time duration given to Dhanvarsha to auction those gold loans in the event of a default to recover or replace that amount to Central Bank of India, which again, will be given to them only at the hurdle rate for their 80% of the amount that is lent by Central Bank of India.

Avinash Tanawade: So, right now each part of our portfolio business loan and gold loan, how do you see these changing in the next 2-3 years, and what would be AUM growth?

Rohanjeet Juneja: We plan to continue to grow in those two products predominantly at this point, about 70% of the portfolio is divided between gold loans and business loans. A good chunk of the gold loans are also given to customers for business purposes. Our plans over the next 2-3 years are going to continue to be revolving around the same MSME customer, given the large market that MSME occupy in India. And, we would not like to give any formal growth on AUM, but as you have seen in the most recent quarter as well, we have seen fairly healthy growth, which we expect to continue in future quarters.

Avinash Tanawade: And, is there any kind of ROA or ROE target you have for next year, next two years?

Rohanjeet Juneja: Yes, certainly. The ROA that we made in the last 2 quarters is north of 3.5%, our endeavor is to take the ROA of 3.7% that we generated in the most recent quarter to 5% over the next 2 years. Again, part of the reason why the ROA also is at key 3.7% is that we also maintain a heavy liquidity portfolio to protect the balance sheet from any exogenous risks. But if you look at our net interest margin basis, it's much higher. The idea is from this 3.7% ROA we will be moving towards close to a 5% ROA over the next 2 years.

Moderator: The next question is from the line of Siddhi Shah an Individual Investor, please go ahead.

Siddhi Shah: I wanted to ask, could you tell me what is the average tenure of the disbursements?

Karan Desai: Average tenure of each of the products that we do?

Siddhi Shah: Correct.

Karan Desai: So take it product by product, so first taking the gold loan product, it's a 12-month loan on paper, 12 to 24 months, but typically these loans roll over in about 5 to 6 months on average, but they are 12 months contracts typically to start. Business loan product ranges from a tenor of anywhere from 24 months to 48 months. Your loan product is typically a 36 to 48-month product.

Siddhi Shah: I have one follow-up question, which is, could you tell us about the current breakup of the loan book in terms of, the type of loan between the gold, MSME etc. and also what percent of the loans originate from the channel partners from co lending or from internally generated?

Rohanjeet Juneja: Today the split of the loan book is 35% in gold loans, another 34% in business loans, 13% in loans against property, and 12% in personal loans. In terms of channel partners, most of our book is generated by captive sales of ours. We have about 19% of the loan book that is generated by co-lending partners that do provide Dhanvarsha's first loss default guarantee. This is a book that we are extremely proud of. We built it over the last 18 months and it generated zero NPAs for us so forward. The reliance on DSAs for us is less than 20% given the fact that the majority of the gold loan book and the co-lending book is not generated by DSAs.

Siddhi Shah: And I just have one last question. You think you have seen very great growth in disbursals and you're at the time the management growth in quarter two. I assume in the coming quarters the net income or interest income should be very good. Are you all concerned about the quality of this book and what are the risk mitigation efforts that you're taking to ensure the GNPA doesn't rise again?

Rohanjeet Juneja: One in terms of, having seen good growth in the book, the majority of the loan growth in the last 18 months has come from business loans that are backed by gold as collateral, which are extremely secure. Just to give you an example. So far in our loan book, comprising of gold, which alone is about Rs. 93 crores or Rs. 930 million. We have only had auctions of Rs. 31 lakhs Rs. 3.1 million which is less than 33 basis points of the gold loan book on which we have recovered 114%. We have recovered 114% in the auction and given money back to the customer. The performance of that book has been spectacular. That is number one. On the book that is backed by first loss default guarantee generated by co-lending partners, the majority of which are business loans. That book also has performed extremely well where the collection efficiency has been between 93% to 95%. We have zero NPAs on that book. Our strategy is to continue to grow through these two channels going forward, which is where we've seen the majority of the growth in the last 18 months as well. In terms of your question on interest income, as you have seen in the most recent quarter and the quarter before that as well, there has been significant progress in the quarter over quarter and interest income given the fact that the disbursement trajectory for the last 4-5 quarters has been fairly robust. We do expect that to continue. We would not like to give any formal guidance on what the interest income would be, but we expect the trajectory to continue.

Moderator: As there are no further questions I will now hand the conference over to the management for closing comments.

Karan Desai: Thank you. I think before we wind up we just like to take this opportunity to share, some parts of the entire technology and tech stack rolled out which is underway currently. So, on our previous quarterly calls as well, we've been giving a lot of insights as to the assets that are being developed and we are very proud to share that in November and then December, we will be launching two of these, larger assets, which Rohan also spoke about briefly. However, what we want to emphasize to people is that is in terms of the ability of these platforms to service this large under-penetrated MSME market, we do not see any competition in terms of the way these assets have been built. So, when you combine the entire methodology of educating an MSME customer who is used to borrowing money regularly to meet his working capital requirements, our credit health tool which will run on a monthly subscription basis, is the state of the art platform, which not only combines bureau knowledge but also runs an alternate data engine that has been developed by us in-house and we are fairly confident that it will help the company build disproportionate scale in the number of clients that they're on boards. This data in turn will again feed the alternate data engine allowing us to build curated and very, very customized products for this MSME clientele. Last but not the least, the Neobanking platform will also help tie to the vision that Government in the country sees today in terms of building that digital financial inclusion story. We would like to play a part in this initiative as well, and ensure that the MSME customer and the blue-collared workforce in India are not left behind in the digital inclusion story as it unravels for the rest of the country. From our perspective, we would request all our investors, shareholders, and well-wishers of the company to stay tuned on the rollout of our tech stacks and we look forward to discussing them more, post the rollout over the quarters to come. Thank you very much and Happy Diwali to everyone from the company.

Moderator: Thank you very much on behalf of Dhanvarsha Finvest Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.