IIFL Meeting after RBI Action 5th March 2024

[00:00:00] Ladies and gentlemen, good day and welcome to IIFL Finance conference call. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Nirmal Jain, Founder and Managing Director. Thank you and over to you, sir.

Thank you. Good morning. Uh, and, uh, so I'll address the concerns which arise from, uh, RBI's action against our companies. And, uh, So first I'll try and explain the issues which RBI has pointed out in their letter, uh, their communication in PR, and then the action that we are taking and the way forward. [00:01:00] So, uh, RBI is, um, the major concerns what they mentioned are certain material supervisory concerns observed in Golden's portfolio.

Serious deviations in assaying and certifying purity and net worth of the gold at the time of sanction, at the time of auction upon default, and breaches in loan to value. Now, these are connected points, which I just can't explain how and what they mean. So, when a branch is, or people disburse loan, the gold is tested and certain purity, based on certain purity, loan is given.

Uh, and typically, when our internal audit is, our own audit team, then they value the gold later, as in, as a part of audit process. And also at the part of, when the golds are sent for auction, uh, that time there can be a variation because the gold testing is a very manual and a subjective process. Uh, you know, on the stone, the gold is rubbed and there's acid and based on the color, uh, the person has to Uh, make an assessment, whether it's a 24 carat, 22 carat, or [00:02:00] a 20 carat.

And obviously, the audit team is more conservative, and their, uh, assessment many a times can be lesser in terms of qualities and what branches and the things that people do. Uh, what RBI, so, I know last year we had 18. 89 cases of disbursement, out of which 82, 000, uh, cases have gone for option, uh, Uh, RBI has just taken the sample of option, uh, the, the sample that was sent to option and obviously there, uh, the variation can be higher because these are the cases which are default rate.

So, there can be accumulation of, uh, mark to market interest and the quality difference there will be higher. So their point is, because the net weight of what is done by our internal audit team is a motional weight which is adjusted, where the physical weight is adjusted for the quality. Uh, their point is that if they take the net weight which is audit team, post facto, has certified when there is [00:03:00] a LTV breach.

Uh, we have taken corrective action to make sure that, uh, that the differences are minimal. Uh, in terms of the assessment of gold, uh, that branches have done and that the audit team does. Uh, but I just want to make, you know, again, uh, one point is very clear that the time of disbursement at the branch level, based on the branch assessment, which is given to customers certificate, there has not been a single case of LTV breach.

So the deviation in assigning and certifying priority, net weight, sanction and option. And reaches in LTV, they are all connected points, and they are basically, as I said, uh, based on the net weight done by our audit team, then the packets go for auction, which is adjusted for quality. Based on that, if you calculate, then probably you'll find that the LTV is 3.

Because what branch is set at 22 carat? Post facto audit says 20 carat. Obviously, uh, the value will be lesser. But in any case, we are, uh, putting in stronger systems in place to make sure that these deviations Uh, [00:04:00] the, also I just want to bring to everybody's notice that all our packets, most of our co lending partners open each and every packet and they make their own assessment of our quality and the rate.

The second point is related to cash, which is in excess of our statutory limit, cash bar in excess of statutory limit. So we have been disbursing and collecting cash up to two lakh rupees. Uh, whereas RBI's point is that your disbursement cannot be more than 20, 000 rupees based on certain sections of Income Tax Act.

Now the Income Tax Act interpretation is a little not clear and different people have different views on that and, uh, every NBFC, almost every NBFC in the industry, Uh, is giving cash up to two lakh rupees and also, uh, but nonetheless, we are just putting in, uh, we are, we are making sure that we comply with this also, and we stop the disbursement of [00:05:00] 30, 000 rupees, uh, as soon as we are allowed to do the first disbursement.

The third point is about standard option processes. Where last year from October, we followed eOption by Option Tiger. Now there is an independent platform, which is also used by large bank like SD and . We thought that a level option because then we got almost 3000 branches across the country. Smaller practically may not be feasible to cut the best price for the.

Uh, and the e auctions, which is in a way, a transparent, uh, mechanism to disclose price and, uh, get the best price, uh, for the customer as well. Uh, nonetheless, RBI's circular has been very clear that the auctions should be comparable. And we'll make sure that we comply, uh, with that also. The third point is about lack of transparency in charges.

The only charges that Okay, the, uh, we have charges mentioned in our, uh, customer receipt as well as [00:06:00] in the website. But this confusion arises from one charge. So when we actually send notices to customers about auctions, we charge 200 rupees. And many a times customers will pay and the auction will be averted.

So then they are not charged anything extra. Uh, but if the actual auction happens, then there's a charge of 1500 rupees. But this extra 1500 rupees is charged only when the actual auction happens. So RBI's point was that even if the auction has not happened, you are charged 200 rupees. But there is an option notice or option intermission charge, which is, uh, also RBI requires us to send these notices physically.

So these are the legal and the courier costs that we try to defray by these charges. But we have made it very transparent, uh, uh, surface reduction integration charges.

So these are the major concerns which RBI has pointed out and, uh, I'd like to explain that, uh, what they mean and what we are trying to, uh, do there. Now from the investor's point of view, I think I would [00:07:00] like to address a couple of issues about liquidity and cost. So, uh, we have adequate liquidity, uh, in terms of, uh, We always had at the group level, uh, and we always disclose these numbers at quarter end.

Uh, further, now, uh, you know, till this issue is resolved and RBI allows us the fair disbursement, we'll continue to collect money from the repayment. And, uh, uh, from that perspective, I think we are adequately covered, uh, for liquidity in the foreseeable future, and we don't see any challenge there. In fact, we'll be, also, we have four businesses and RBI has audited all of them.

The only business that is impacted by this action is Gold Loan, but two thirds of our other businesses continue. And also, we shall try and double our effort to cross sell and sell other products from the same branches. These branches have a fixed cost structure monthly of about 65 to 70 crores. And our live on the existing portfolio is about hundred 35 euros on the golden portfolio.

So I've talking about golden cost and the golden, [00:08:00] uh, live broadly. Uh, typically these portfolios, uh, you know, they run down in a natural cost over seven, eight months, uh, which is, you know, and so I'm just trying to give a perspective of the liquidity and the cash flow. And the cost, uh, that, you know, will be impacted by this action.

Uh, so we understand the concern that such use can generate amongst our stakeholders. However, I want to make it unequivocally clear that there are no governance or ethical issues at play. These are more operational and procedural issues, and which we'll address, uh, with all our effort and sincerity. Our foundation remains solid, which is built on trust and support.

And I also want to assure that we are taking immediate and comprehensive, comprehensive steps to address all the concerns raised by RBI. Our team is committed to implement the [00:09:00] necessary remedial measures, not only to comply with the regulatory standards, but also to exceed them. So our resolve to rectify the situation is unwavering, and we are dedicated to navigate this situation or this challenge.

With transparency and integrity and atmos respect for compliance standards, regulations, and principles that are guided us. So in this Our of Crisis, I request all of you for your continued justice support. Your belief in our capabilities and mission has always been our strength, and together we have weathered many storms and celebrated assets.

And I thank you for your continued trust in partnership and look forward to navigate this phase.

Uh, we are taking thoughtful steps to address the current situation and our action are guided by our commitment to all our stakeholders, customers, employees, and partners. You know, and I, at this point, I also want to say that we are more than a company. We are a community that serves millions of customers, tens of thousands of [00:10:00] employees, and channelize bank credit to underserved segments of the society.

And therefore, your support at this, in this hour is very crucial for us. While the directive of RBI appears to be a bit harsh, I take a moment to express our profound gratitude and admiration for the Reserve Bank of India. Their steadfast commitment to ensure stability and integrity of our financial system is unparalleled.

with their proactive and prudent regulatory measures that have not only safeguarded the interests of all stakeholders and investors, but also contributed significantly to the nation's economic growth and stability. So the guidance and oversight provided by RBI are invaluable fostering an environment of trust, transparency, and resilience across the financial landscape.

And we are grateful for their visionary leadership, unwavering support, and guidance. That is, that is the challenge that inspired us to meet our challenge, challenges with determination and strive for excellence in all our levels. So we take this corrective [00:11:00] action by RBI in a constructive way as an opportunity to introspect and improve our systems and processes, compliance and controls to emerge as a stronger player in the long term.

Thank you. With this, I open for Q& A now. Thank you very much, sir. We will now begin the question and answer session. Anyone who wishes to ask questions may press star and 1 on their touch tone phone. If you wish to withdraw yourself from the question queue, you may press star and 2. Participants are requested to use only handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Dhaval from DSP Mutual Fund. Please go ahead. Uh, yeah, uh, thanks, uh, for the opportunity. Uh, thanks, Nirmal, for your opening. Uh, two [00:12:00] questions. Uh, first is, uh, relating to Uh, the, uh, you know, timeline that you, uh, think will be required to make, uh, these, uh, necessary changes, uh, and, uh, also, you know, uh, in your view, how much time, uh, would it take for the special audit to, uh, you know, get completed and, and, uh, whatever, uh, further, uh, changes need to be made, uh, to, to get implemented.

So how much, how many, minimum, how many, uh, months of, uh, business loss, uh, uh, do you envisage, uh, Uh, in this case. So that's the first one. I think. Yeah. Except for the cash disbursement part of it, which, you know, we can. Implement. Only even the disasters are allowed, but more or less we are already ready. We are already complied with them.

We, of course, for an, uh, uh, as urgent meeting and, uh, whatever special audit or you know, they want to do. So we are ready for that and [00:13:00] hopefully, uh, this should happen, uh, sooner than later. And, uh. We'll try and basically, uh, request and approach RBI for the fastest, uh, you know, process, whatever they want to run for this patient audit.

Uh, understood. And we are ready in terms of our, you know, we have compliances or whatever they wanted. So we have implemented those things. And, you know, the audit can start maybe, you know, immediately. And, uh, the second question is relating to, uh, the engagement, uh, with the RBI. So, uh, you know, in the letter, they highlight that they've been engaging with the management and, uh, uh, auditor, uh, for a while.

And, uh, uh, you know, uh, these, uh, there are no strong, uh, uh, changes, corrective actions taken and hence, uh, these, uh, uh, steps needed to be taken. So just wanted to understand, uh, uh, how, how long this process has been going and has this been a recurring, uh, remark in their, uh, Uh, supervision audit, uh, that, that they conduct annually, uh, this, uh, [00:14:00] some, uh,

So, uh, the FI22 report came to us on 21st of September, 23. And, uh, the, uh, next year's audit started on 31st of October, 23, which is about 40 days from now. And I think the comments on the report came on January 18. And after that, we had a couple of meetings. So, um, to be, I think this has happened very quickly.

And, uh, one of the key challenges that we had was that from the receipt of last FI22 report to FI22 inspection. There was just about a month, uh, but the last couple of months, you know, so, uh, I'd met the EDs and a few, and Venkat also, I'd met the team here. So all the interactions have happened in maybe last 45 days or so.

Understood. Got it. Thanks. And all the best. Thank you. The next question is from the line of Maruk Adajania from Nuwama. Please go ahead. [00:15:00] Good morning. Hi. My question is related to the securitization and assignments you do. So when you assign gold, does gold stay with you and it's on your assessment only, uh, that, uh, loans are assigned?

This is our assessment, but many, okay, it's on our assessment, gold remains with us. But every packet has a number and the, the assignment partner or the co learning partner, they have the data and they, Do come and check and audit. So some of the banks basically check each and every packet, uh, you know, that is, uh, either in a cold ending or assignment.

And some of them do it on a sample basis. And, uh, securitization, obviously, it's PTC route or it's largely assignment only. Because securitization, there's no need to check, right? It's assignment only. Also, you know, Last year we disbursed 18.89 N Goal loan and the total number of complaints that we received from RBI [00:16:00] related to goal of 1 35.

How much, sorry. 1 35 complaints we received from RB related to our goal loan customers. Mm-Hmm. out of 18.89 N. Disbursement that we did. So we have about, you know, last year and we would have more than 16, 000 active customers and 56, 000 total customers. So if you really see the number of companies that have gone to RBI, come from RBI, are very, very few compared to the size of business that we do.

Got it. Got it. Okay. And, uh, um, so, uh, basically what will be the normal portion of, uh, assignments that you do not profit? The percentage

assignment is 10 90. Uh, where the 90 goes to the bank, 10 minutes. And 20, where 20 remittances, 20 goes, uh, 80 goes to the bank and 20 remittances up. Got [00:17:00] it. And so you, uh, on your website, uh, so you have 15 co lending partners, but how, how much of those, how many of those would be gold partners? Because some of them are for home finance, right?

And some for Yeah, gold loan partners, uh, one second, I

Six to seven, uh, banks are go partners for gold.

Okay. And it would not be possible to name them. We named them in our position, actually. Okay. Okay. Yeah, there are 15 names, right? So.

Across the group actually, yeah. Okay. Okay. Okay. Thank you so much. Thanks a lot. Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Nirmal. Uh, thank [00:18:00] you very much. Hi. I have, uh, two, uh, questions in terms of you had mentioned, uh, uh, sorry, I got cut in the call in the middle. So, um, you know, I missed out something.

One, I wanted to know about the balance sheet liquidity. I mean, there is this assigned loans, which anyway, you know, the, the, what you have on the balance sheet in terms of, uh, of, uh, maturities of loans and how much liquidity you have and what is the action plan in terms of shoring up liquidity if need be.

So that's question number one. The question number two is, you know, you had mentioned that they had noticed a deviation at the time of the auction. How much was the deviation in value? I mean, net net, we recovered all our monies, right? That's the second question. Uh, okay. Well, first question in terms of liquidity, uh, so at a group level, we have 4, 000 crore liquidity.

I mean, I will not have precise numbers because, uh, they generally done when the accounts are closed. And, uh, on top of that, uh, what will happen now is that [00:19:00] until this is resolved, we continue to collect and, uh, so that we'll keep, uh, getting added to liquidity. And, uh, in terms of, uh, your other question was about deviation.

And the, uh, so last year, as I said, out eight, nine disbursement that we do it, 82,000 went for, uh, uh, option. So from that pool, uh, there were devices in terms of okay, what they've done is that. You look at the net weight and certify the auditor of that pool compared to the net weight at the time of disbursement done by the branch and this is our audit team and there were differences.

So there were differences once again as I told you. In 55, 000 cases there was a deviation, but as you said that in most of the cases we have recovered our money, there is hardly Uh, any we can very, very few and negligible. Okay, [00:20:00] perfect. Uh, since actually, you know, you know, we all have exposure to individual entities as well.

Um, if you could, you know, e even at the end of the call, if you could just, uh, you know, if, if the finance team can say how much liquidity then IFL, how much majorities are there and the collections in terms of a certain probably how much collections, that would be very, very useful. Uh, I can wait till the end of the call for that Also.

So, maybe, uh, we'll get back to you on this, uh, because this is from the last night to this morning. I mean, uh, we will, uh, so we'll get back to you. Okay. Great. Thank you so much. We'll get back to everybody else. Thank you. The next question is from the line of Prakriti Banka from HSBC Mutual Fund. Please go ahead.

Yeah, hi. So just my question, you mentioned that the issue was with respect to valuation of the gold at the time and by the audit team, and there was slight deviation. I'm just trying to understand, I mean, what was the materiality of this? Because from what [00:21:00] you said, it appears like a pretty standard practice of what any gold financer in BSE would be seeing, right?

So what was so materially different for, you know, RBI to take such a

So, you know, some of the gold owned companies, they don't do the carrot based valuation also because they take only standard valuation of gold. I mean, but I don't have data on this because RBI would audit the other gold owned companies and they'll be able to compare and contrast. As far as we are concerned, uh, uh, because this was done only as a sample that goes for auction and not for the entire thing, and obviously that is a sample where MTL variances can be higher.

Uh, so, you know, I think in the overall scheme of things, it's not material. If you look at our entire business of The number of customers, the number of business companies, you are very insignificant. Whether it's Madhuri and Vijayawada, other golden companies, I [00:22:00] don't have an answer to that. Got it. So, again, I mean, when we're talking about this valuation, uh, you know, they found this to be, uh, overvalued, or you, they were, because they also, you know, in the being mentioned that, you know, they are also maybe concerned about the customers, or was it, was it being undervalued?

Uh, so their concern about valuation would be that, Uh, if the gold is undervalued at a time of auction, then you realize lesser and customer will not get the full money or the full credit. I would presume that there is a concern. So, uh, now the challenge here is that audit will always be little more conservative in valuing as compared to branch.

And that is what we are trying to address in terms of changing the process that we have. Uh, but as I said, by far, the number of customer complaints that we have on the customers, obviously, You know, it's customer's personal property, and they'll be more concerned than anybody else about the value that they fetch.

And so, you know, [00:23:00] given the number of customers, the 56, 000 customers, today we have more than 19, 000 customers active. The number of complaints that have gone to RBI about this has been very, very few and far between. Okay. Got it. And, uh, That's why we say that, you know, it's not a, yeah, serious concern to the customers.

Yes. Go ahead. Yeah, but, uh, so, uh, you know, we, you did mention that you've been engaging with them only for the last, as they did sort of say that over the last month. Engaging when no outcome has been seen. But you're saying that you're quite prepared, but so when, uh, could, you know, I mean, you did mention that you're going to approach them immediately.

Today only. So I'm requesting for a meeting today itself, if possible. Last 45 or 60 days. Bye. Bye. Bye. Bye. is what they would have after the report was, uh, so that, you know, there's a draft report in this case and the final report that comes. So we got our report on 23rd January, uh, of, uh, 24th. So, [00:24:00] uh, from there, I think it's still about, so we got our report about 20, 22 days back.

And in none of the previous engagements with them, did they highlight any observations? No, they have been highlighting these observations. So as I said, this is the last year's report and this year's audit commencement. There is not a significant gap. But yeah, they have highlighted this concept and we are taking correct direction on this.

So some of these issues like cash or the other issues which are there, uh, you know, I mean, we have to be competitive in the industry. But, uh, these were highlighted and we are taking corrective action on this. And this is cash, uh, uh, disbursement. Also, you're saying that you're doing, at this point of time, a disbursement is, uh, happening through cash made releases.

So, we right now, so, from today, the disbursement is stopped. But, yeah, disbursement happens up to two lakh rupees. And in Mali, of course, then we have to do more than two lakh rupees also. I think banks, I'm not very sure, but banks are allowed to [00:25:00] do cash disbursement up to five lakh rupees. Uh, but for NDC interpretation is that they can't do more than a piece.

Uh, just last, uh, thing for me, you mentioned, uh, 65 to 70 crews would be the opex, uh, of the branches or now, uh, the fixed opex of the branches for gold. Right. So this is the, uh, monthly or opex and our monthly connection grow on the golden portfolio, but out the seven part go, uh, to, you know, the partner school.

What we can retain is also on the current portfolio is more than 135 crores. On the golden portfolio itself I'm talking about maybe. 125 crores per month. Broadly. So these are very quick numbers, but our collection may be changing, but as I said that typically part of that will go for, uh, cold handling, assignment, and other things to meet those requirements.

Also, just the communication that you, uh, are sort of sharing with your [00:26:00] branches at this point of time, I mean, are you sort of expecting a faster rundown of the book or, uh, what are you sort of communicating to the branch for that matter to employees or whatever? So this is unprecedented and I don't know how the customers in the branches, I mean, uh, will react to this, but what we are communicating to them is that, uh, Uh, we complied with the RBI directives, uh, in total and fully with, uh, and we'll try and address the concerns at the quickest and, uh, we'll engage with RBI, uh, to come back, uh, and bounce back at the fastest speed.

And at the same time, till then, we have to service the customers, uh, and then to make sure that, uh, you know, there are no customer inconvenience. RBI has allowed us to service. Uh, collect the recovery process, uh, for the existing portfolio. So there are no concerns there. And then we'll basically have the customer to, you know, uh, with whatever they need.[00:27:00]

Yes. And also there's, uh, you know, the part where you mentioned the transparency of charges. This is only the auction charges. Auction intimation charges. Okay. 200 rupees auction interest rate charges. So they were, maybe, they were auction charges. And then the point was that if I don't do the auction, why would I do the auction charges?

But the difference is, when the actual auction doesn't happen, we charge 200 rupees, which is more like a auction notice charge and not an actual auction charge. But when you get an offer, the notice customer pays to you, it doesn't go for auction. All right. Okay. Thank you. Thank you. So there are quite a few questions in the queue, so I request, you know, to be brief and not repeat.

And in any case, this call, I think, will be uploaded on the website. This column is uploaded on the website, so those who have missed the preliminary remarks probably can, you know, refer to them or can listen to them on the website. Sure, sir. Thank you. I would request, uh, all the participants to be brief and precise about the questions they are asking and be limited [00:28:00] with your questions, please.

Yes, sir. Please, please avoid any repeated questions as well. We'll take the next question from the line of Muthukrishnan N. from Sundaram Finance. Please go ahead. Good morning. Good morning, Nirmal. Uh, so basically you are saying that, uh, uh, the issue, uh, the three issues you mentioned right at the beginning of the call.

The first one was regarding the quality of the code. This is the one which is applied by your affair in the branch, uh, and your internal auditor, right? Yes. So, what was the disparity there, like, uh, were the SIR, uh, undervalued the gold or something like that? On a transactional level, I would like to understand that.

This is my first question. Number two was that, uh, is it, uh, does this pertain to a particular region or an area? The total quantum of gold and the, uh, accounts, uh, which have, uh, fallen under the deviation, uh, uh, [00:29:00] banner. No, there's not in any area specific, that's the second question. The first question is, yeah, okay.

So I'm saying, so supposing the branch gave a gold load, which was 30 grams, uh, when they weighed and, uh, you know, gave a load to the customer. When it goes to auction, our audit team does the reassessment of the quality and the weight. Okay. Okay. So, supposing they say that this is not 22 carat, but 20 carat, and they say, okay, there may be some stone or something which weighs this.

X has not Y and they said that there's not 30 gram or 25 grams. So now what happens, what RB is that at the time of watching you saying 25 grams, at the time of giving load you said 30 grams. And so if you take 25 grams and it goes to oxygen, then you load them out, bill, uh, which they 25 grams, not 30 grams.

So that is TB brief and that is a deviation in the purity and that weight of the goal at the time of section of at the time of auction. Okay. So I [00:30:00] think these are the points. That's the first point that they mentioned there. The second and third point are about cash, and the third is a standard option, and the fourth is about charges.

So these are the points, uh, that have been, uh, uh, given by RBI and the precedents. So the ATV which the, uh, the branch has given for the, for the customer, is it higher than the value of the gold? Is it what I should infer, sir? No, it's higher than the value of the gold as assessed at the time of auction.

But the value of gold or the quality of gold is a subjective assessment. So there's no difference in the physical weight of the gold, what branches are done and when they come to auction. But the net weight, which is the weight based on the quality assessment, has been different. Okay. Now, are the branches made a heavy assessment of the quality, uh, in terms of the value uh, related to quality?

Uh, as a branch, when they disbursed the loan, [00:31:00] you mentioned LTV, sir. So, I'm just relating this question to that. So, we need to say that, uh, the branch paid us, uh, in terms of loan value. That is more than the, uh, I mean, the branch made a higher value in terms of We study your internal audit team and the time of auction.

Exactly. So branch, if there is no case where branch 75 percent LTV required by statutory limit at the time of disbursement based on the assessment of physical weight and quality that the branch gave. Okay. Most spectrum audits that weighted quality if applied to the load which has given earlier then there is a difference.

Okay. That means the internal audit team assess it at a lower value. This is what I should understand. Yes, that's right. Okay. Okay. Now, uh, sir, one more question related to this. When, when, uh, what period does it pertain to, um, this particular set of transaction? What [00:32:00] period? Uh. Last year, 2020 2023. Okay.

2223. Okay. Then by, before the and, uh, uh, before that, uh, any of the RBI audits have mentioned any discrepancies? No, I mean, this one, inspection was done for 2223, so. Okay. Thank you, sir. Mr. Nuerman. Thank you for your patience. Thank you. The next question is from the line of Murti Nagarajan from Tata Mutual Fund.

Please go ahead. Yeah. Thank you. I want to know what

To see where you are saying. So I think he remembers that there is our quarterly presentation. I don't have the handy right now. But there is our quarterly presentation, the most of the [00:33:00] So, I don't think anybody has changed from there. What we have been asked is that, I think, what are the guidelines for your cash flows?

Yeah, that's right. So, we follow that. You follow that. Yeah. Okay. Thank you. Thank you. The next question is from the line of Abhijeet Vipriwal from Motilal Oswal. Please go ahead. Yeah. Thank you and good morning. Um, I just wanted to understand, I mean, when someone earlier in the call asked you that, I mean, How long it might take, um, we shared that we are kind of ready to approach the RBI and request them for the special audit.

So, given that RBI has already been engaging with us, uh, for the last couple of months, uh, like you said, then 18 is where you receive the inspection report. I mean, why couldn't we have fixed this, uh, earlier itself, uh, rather than letting it [00:34:00] come to this is what I am trying to understand.

So, earlier inspection, uh, response to our report was to be submitted by 9th March and we were ready with it. But this is coming ahead of it. So, normally, so it's not even a couple of bugs actually. And, uh, we were in the process of fixing it. And this has come as a bit of a surprise and quicker than what we thought.

The

second question that I had was, uh, around, um, I mean, you've been sharing that, uh, out of 18. 9 lakh disbursements, uh, only 82, 000 went for auctions, and there was a division in almost 55, 000 cases, and 135 complaints received from RBI, from Google customers, but these complaints would Either have been on, on, I would say charges that you levy or for that matter, [00:35:00] uh, the auctioning process, if the customer is not happy.

But I mean, in terms of, uh, I mean, divisions that they have identified in, uh, purity of gold and like you shared, uh, there was division in when you disbursed a loan versus when it went for auctions, the net weight of the gold and the consequent LTV. So there I couldn't understand, I mean, what corrective actions are we taking in particular to this certifying the net weight of the gold and the purity of the gold.

So one of the thing is that the branches when they do their assessment and valuation, we have to, uh, make a process tighter where, uh, you know, the quality assessment is more conservative and stricter. And that is one thing that we should, we can also have a much more intensive filling processes of, uh, Uh, you know, making the quality assessment at the file level.

[00:36:00] Okay. So, and then one last question, I mean, with regards to this, uh, non adherence to the standard auction process. I think you shared that we started doing e auction on Auction Tiger, which is followed by some of the banks as well. So, I mean, to kind of address this, uh, issue which has been raised by RBI.

What is it that we now kind of need to do to be compliant with the standard auction process? So, uh, you know, the auction has to be done at Taluka level or at a branch level. And, uh, that is what RBI's circular and directive is. So we should comply with that. Got it. Thank you so much. I think, I mean, this is useful.

Maybe I'll come back to that question. Thank you. The next question is from the line of Pratik Chhera from Guardian Capital Partners. Please go ahead. Uh, thank you for taking my question, uh, so I understand that, uh, we received the inspection report in January and now we are in March and this is [00:37:00] when the disclosure has happened, uh, when we are now taking correction action, uh, is there any other inspection which is going on, uh, by the RBI in any of the other products, uh, which is still pending, uh, certain, uh, reports or is there any draft observation, however trivial it is in any of the other products which is pending?

No, RBI has done the inspection for all together, so I don't think they do it separately for products. So, RBI inspection for 22, 23 is over. No, no, not for 2022 23. I'm asking for any other products. Is there any other inquiry going on? Any other, uh, information? No, there's nothing going on. So, RBI has come. So, there's no other inquiry, to our knowledge, is going on.

The inspection, I mean, there's nothing on inquiry, but inspection has been completed by RBI. The reports have been done, and the response is also ready to be submitted. Okay. Uh, so, there's no other inquiry or investigation that we are aware of. Okay, that's helpful. And second question is, uh, if [00:38:00] is the, is there a 55,000 observation, one of the 80 to thousand cases that have gone to the auction?

Is the company planning to do another internal audit for all the decisions that have been, uh, made during the year? And, uh, how, how are the internal auditors not really highlighted this, uh, in the annual report? Because if it's 55,000 cases, it would've been throughout the year, right? I mean, it's almost, it's a very high proportion of cases.

See, the option cases are the cases which are stressed account. So, the probability of these deviations is only mostly the option cases or the stressed account where customer has failed to pay, the interest is accumulated, it goes in 90 days, they only go for option. So, obviously, you know, you won't find, you'll find, the probability of finding some deviation is significantly higher in option cases because they are dispersed accounts.

Yeah, but do you plan to take any action on the other accounts as well? Yeah, we are [00:39:00] taking, obviously, the whole process is being revamped. So, we are obviously taking a lot of action for this. Okay. Thank you. Thank you. The next question is from the line of Amol Patil from IDFC, First Bank. Please go ahead.

Hello, this is Amir. Yes, Amir Krishna. Uh, whether this will have any financial implication, first of all. Secondly, uh, whether, uh, any earlier warnings or any other penalties were imposed on IFL before by RBI, uh, before taking this action. Uh, and, uh, I would also like to understand what will be the impact, uh, if in case of gold on generating loans are rolled over on the maturity.

So, uh, now because the IFF will not be able to, uh, disburse fresh [00:40:00] loans, uh, what will be the impact of that on overall asset quality and, uh, how are you planning to address this issue? So, there has been no penalty or any other, uh, action by RBI till now. I mean, there's no penalty that they levied ever on, uh, us at least, you know.

And the second is the financial implication. So it also depends on how long we take to come back and, uh, but, you know, I'm personally very sure that, uh, we'll come back as a longer life, you know, maybe a short term, uh, abrasion like this will not have a major impact on the financial health of the company or the financial numbers.

They can impact until the issue is resolved, but again, as I said, that will make, uh, our, you know, most sincere and strongest effort. Uh, to resolve this at the fastest speed.

Hello. Hello. [00:41:00] Yeah. Yeah, so, uh, This is one part of our business, in which, incrementally, you add about a 5 percent to your portfolio in a quarter, and you run down, uh, the, you know, the portfolio about 10%, 12 percent every month. So, again, therefore, it's very difficult to say what is the impact. But again, depends on how long the whole situation last.

Thank you. Sorry, sir. The next question is from the line of Damodar Agarwal from DCB Bank Limited. Please go ahead.

Mr. Agarwal, yeah, please proceed. Yeah, good morning, good morning, sir. Um, this, uh, was there any specific observation on AML KYC? We just wanted to understand that. No, [00:42:00] there was no observation on AML KYC. There's no violation there. No, not in a single case. Thank you, thank you very much. Thank you. The next question is from the line of Sujay Malik from Indian Bank.

Please go ahead. Good morning, Mr. Jain.

Just wanted to ask three questions. First is what is the impact on the recoverability of the pooled assets, the direct assignments assets to the bank? First. Second, is any future embargo on auctioneering or auction of the goods, if anyone goes bad? The third point is what is the timeline for rectifying these operational issues by the company.

Thank you. Yeah, thank you. So, first question, the recurrence has no impact because, uh, you know, all our gold loans, the customers are there and the RBA has allowed us [00:43:00] to do the recovery process and the collection process as normal. So, I think that also answers your, uh, second question, which was, so what were the three questions?

The second question was about, uh, Let me, um, embargo on auction of the, yeah, there's no embargo on auction or, uh, recovering the money. So, there's no embargo there. They're very specifically, they said that our collection and recovery can continue as normal. And third is, how long it will take? So, we have already rectified and put in place all the RBI.

And, uh, uh, so it's just like, you know, our report has to be submitted on next night, uh, which is a couple of days, and this has come. Uh, but anyway, we'll actually engage with RBI and try and see how quickly, uh, we can get the above report. No, Mr. Jain. I wanted to know any internal corporate governance issues wherein you have taken a stand that rectifies these operational issues within a certain span of time because it is jittery in the markets as of now.

So [00:44:00] I understand. But there are no issues. Even if you Yeah. So even if you see Mr. Malvik, the RBI's report Or whatever communication there. No go issues or no, uh, even email issues. So all the issues are operational and what I request all of you is to make, you know, client understand. And, uh, uh, I know, I mean, we are always trusted and we counter your trust going forward, but you can see the communication back there as well as, you know, I mean, this call, I'm making it very clear that there are no governance issues or there are no other issues related to this.

Thank you. Thank you. All the material concerns, they are brought out in the presentation itself. Thank you, sir. The next question is from the line of Shubhranshu Mishra from Phillip Capital. Please go ahead. Uh, good morning, sir. Thanks, uh, for this opportunity. Uh, my first question is around that, uh, whatever [00:45:00] RBI is pointing out is pretty much business as usual for all shades of gold finances.

Uh, do you think that the RBI action has been fairly harsh? And they could have done something else. Uh, uh, uh, second part of the question is, how long do we think that we'll get back in the business 3 months, 6 months, 1 month? If that can be quantified or some direction can be given to that, uh, that, uh, space, uh, my 2nd question around assignment.

Do we originate loans as bullet loans or term loans? Because if they are bullet loans, my fair understanding is that we can't do assignments or securitization as per the present regulation. If they are originated as term loans, I do understand these factors.

Maybe I'll take a couple of questions after this because it feels wrong and most of the questions have been addressed during the My [00:46:00] initial address will be, we will again engage with investments as required. Uh, so coming back to your questions, uh,

The RBI action is, you know, maybe, I think it may appear harsh in the short term or the immediate district, but I would say that, you know, because the businesses are built for a long life. And, uh, sometimes these corrective actions are, uh, uh, good, you know, to make sure that, uh, you know, the system becomes stronger and over long term you emerge as a stronger player.

So, I would take it as a positive and constructive way and would like to rectify whatever lapses we had in our system at the earliest. Uh, how long will it take? Uh, I mean, we try to do it fastest, maybe, you know, a few weeks or a month or immediately, but you know that I think, uh, you know, it's very difficult for me to comment on that.

Uh, because that's not exactly exactly my head, but as far as I said, uh, in this call that we are ready, uh, and we are complied with, you know, all the observations that they had that we are about to, and [00:47:00] we'll submit our report to RBI maybe today itself or in a day or two.

The second question on assignment, sir. What is the assignment, sir? No, that, so, sir, I think, uh, assignment is done based on, assignment may not be of the capital budget, but they can be coordinating of a loan, which are payment, you know, on a term loan or a budget loan. Uh, but as I said that our operations will have to continue to run as usual for existing loan portfolio, collecting and recovering and servicing.

I don't see any impact on the loans which have been assigned and which have been collected because the gold is there, the customers are there, and the collections are there. I understand all of that. My moot point is, are they originated as bullet loans or as term loans? There are, no, I don't think we have a bullet loan originated for the [00:48:00] district.

No bullet loans are, the most of the loans are term loans.

The principal is paid when the term is over. That will be the predominant part of our rules. They can be bullet rules. Some of them can be in our books and some of them can be coded, but I don't think assignment happens on the bullet rule. Understood. Assignment of bullet rules, but, uh, they can be on our books, but most of our rules as I'm repeating, they are in the nature of a fixed term.

The interest is on this and the principal is paid.

Thank you. I'll be able to take one or two questions more and then, uh, we'll have to, uh, complete this part. Yeah. Sir, should we take more two questions? Last two questions? We'll take the next question from the line of Ranish from ICICI. Please go ahead. Yeah. Hi, sir. Uh, so just two questions, uh, from my side, uh, one is on this, uh, you know, profitability.

So if I look at the, uh, [00:49:00] standalone PNL, uh, which is, uh, predominantly gold loan based for us, and, uh, we've generated around 130, 140, kind of proprietary in Q3. Uh, so try to assume that, uh, let's say, uh, in the time we, uh, resolve the, uh, let's say, the RBI observation, uh, uh, to that extent, our profit will get impacted, uh, in next couple of quarters.

So when is, uh, what is that all the discretionary costs like advertisement and the variable incentives will basically So the advertisement campaign is discontinued immediately, so marketing costs, which is a lot of below the market line activity for acquiring customers, uh, that basically is discontinued.

And on our portfolio, what we have, we continue to earn interest income. So the immediate impact will not be so significant because, but the impact if it continues for a longer term, as the portfolio runs down, can be significant. Uh, on this part of the business, which is one third of our total business at a good level.

Uh, and, [00:50:00] uh, and it's tenable also. As I said, the portfolio will continue to arch, uh, for the time being. Okay. So, so you, you mean, uh, price impact will be lower than the standard price what we reported in Q3? Because we might save on some of the costs. I mean, is that the fair assumption? Yeah, we'll save on some of the costs.

And whatever portfolio we have, we'll earn income on that, continue to earn income on that. Not that everything will run down immediately. But, uh, whatever portfolio that you, maybe, you know, if I give you the proper 10 percent down, then also you have 90 percent on which you can really draw. Correct, correct.

And the cost also go down to that level, yeah. And, sir, just last question on this, uh, you know, the entire, uh, delicate segment piece for us, which is Uh, roughly 40 percent of the AUM, uh, currently. Uh, do you foresee any risk to that, uh, because of the RBI implication, or, uh, you feel that, uh, uh, let's say the home loan and the, uh, MFI in whatever limited capacity we do assignment that will continue?[00:51:00]

So, home loan, MFI, and, uh, business in business will continue as usual. And, uh, assignment of golden will not happen now. So that is actually is paused. Got it. Got it. And just, uh, again, sorry for the last thing from my side. Uh, on this, uh, release, you know, uh, earlier I did mention about the, uh, spatial audit, uh, you know, will be, uh, conducted or might be going on.

Uh, so, uh, what sort of this spatial audit, uh, in nature, I mean, since we have already received the, uh, communication from them. And, uh, we might have already submitted our responses by now. So, uh, what does it mean of, uh, uh, mentioning the special audit, sir? So, I think the observations they have, they would like to.

So, we submit that we are complying with it. The special audit will probably to reconfirm whether we are complying with that. Okay, okay. So, the next audit will be limited to, uh, whatever observation they have, uh, given to us, right? That is what I would, I would [00:52:00] like to believe. But absolutely, because this is, uh.

Okay. Thank you, sir. Thank you. Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Vihag Mishra from Kotak Mutual Fund. Please go ahead. Uh, hi, uh, team. Thank you for, uh, uh, being on this call to clear the air. Uh, my only question is that, uh, regarding the cash dispersal.

Uh, Uh, what is the industry practice, uh, for cash dispersals or other, uh, cold loan NBFCs also dispersing up to 2 lakh rupees in cash? And, uh, is there a cycle dispersing cash in other products also up to 2 lakh rupees? No, no other product does a cash dispersal, but other NBFCs are dispersing up to 2 lakh and some of them are dispersing more than 2 lakh also.

Okay, got it. And there are many customers who have shared Uh, the receipts or whatever with us, so at least we have, you know, the document for many industries that are doing the same thing. [00:53:00] Okay, fair enough. Thank you. Thank you. Thank you. Thank you very much, sir. Ladies and gentlemen, as that was the last question, I would now like to hand the conference over to Mr.

Nirmal Jain for his closing comments. Over to you, sir. Uh, so thank you so much, uh, all the stakeholders who were there on the call. I really appreciate your trust and support. Uh, and your, uh, confidence that you've shown, uh, in us and we count on your continued support. So, these are the moments where, uh, we have to show our resolve and resilience.

And I'm sure that many organizations, as they grow larger, they face, uh, uh, these kind of challenges during their life journey. And, uh, obviously, if our intent is right, our values of transparency and integrity remain uncompromised, we'll bounce back stronger. And, uh, we also really appreciate because the RBI and regulators make it like this.

Which may appear harsh and, uh, in the short term, but they basically make the organization stronger, uh, from the long term perspective. And, [00:54:00] uh, you know, more often than not, uh, you know, you were stronger, uh, and more competitive over the long term. Thank you so much. Uh, really appreciate your time, uh, and patience in this.

Thank you. Thank you. Members of the management, ladies and gentlemen, on behalf of IIFL Finance, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank