niyogin

Chairman's Update to Investors: Q4-2019

FY19 has been the second year in our journey of building a best in class small business centric fintech platform. This was also the first year of our distribution and operations build and we ended FY19 with a loan book of INR 510M (USD7.2M), disbursal of INR 615M (USD8.8M), 612 partners and 434 customers - in-line with our revised guidance. Q4 2019 has been a satisfying quarter for us as our distribution build continued apace, accelerated growth and improved our activation rates even though credit markets remained turbulent. Overall, we are happy to report that we have quickly operationalised the business and we are now geared to drive scale in a broader based format in FY20.

Our vision is to establish a proprietary pan-India distribution network which creates a funnel for customer acquisition (partners) and simultaneously enable an ecosystem of product, financial and strategic partnerships which serve our customers' needs in a broad-based format. The validation of our platform, processes and under-writing sets the foundation for an open architecture product and process platform to support third party businesses who are also focused on the MSME segment. We are on our way to realizing the vision for small and micro business in the country where we are more than a lending platform with the capability to be genuinely a digital solution provider for our target segment.

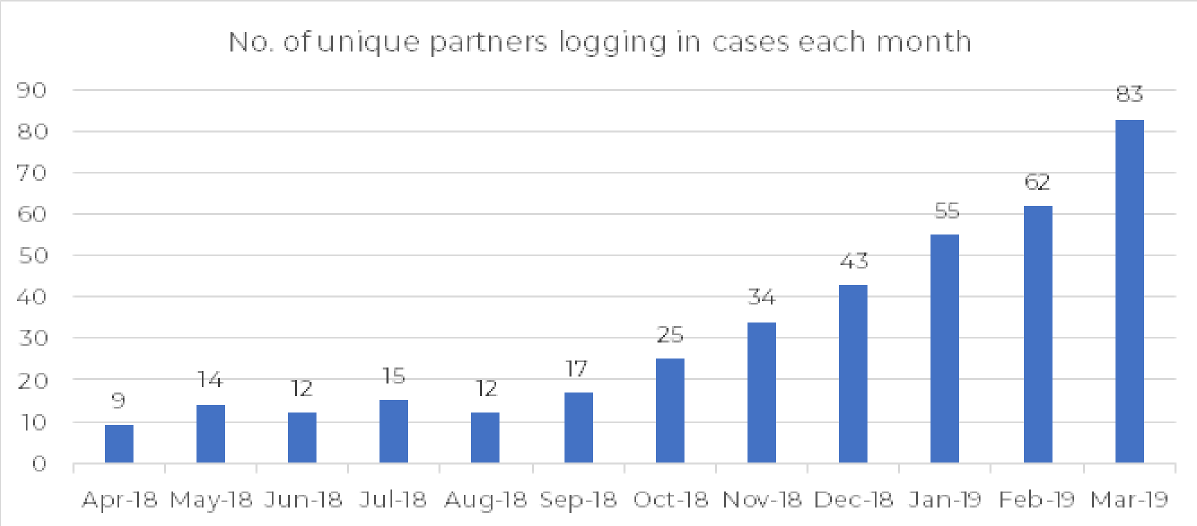
Partners

Distribution through financial professional channel is the cornerstone to our business and we ended FY19 with 612 partners (against our upgraded target of 600 in Q3). We will accelerate the distribution network expansion in FY20 and expect to exit with at least 1800 partners this year. Our partner acquisition strategy through FY20 will primarily focus on deepening our penetration in existing markets. As we continue to expand, we will need to build bench-strength in this channel and thus will be rolling out industrial scale efforts towards training, customized product expansion and usage-based platform enhancement. In FY19, we launched the microsites program for our partners to create digital footprint for them and their businesses in local community. We have seen early success to this program, and we continue to see pick up in adoption rates for microsites as we begin FY20. Over the FY20-FY21, our focus will be to expand our partner engagement programs, product offerings across credit and non-credit based products. This will empower our distribution partners and allow them to experience differentiation of our platform versus conventional financial institutions or the DSA channel (Direct Selling Agents).

Through FY19 we used the wholesale channel on a very selective basis, given the natural tendency to push multiple loans. As we expand our partner distribution channel, we have decided to predominantly focus on our proprietary retail partner channel. Thus, we will be moderating the third-party wholesale channel as we step into Q1FY20.

A critical aspect of our distribution and portfolio strategy is geography focus. With an objective to address the underserved SMBs, we are consciously building our distribution network beyond metros. As mentioned earlier, we now have a critical mass of anchor partner relationships enabling us to penetrate deeper (increase coverage) into each location and increase activation (partners who have given us more than 1 login).

We are pleased to state that our accumulated activation rate is 33% which results in an increased number of customer referral logins from our partners.

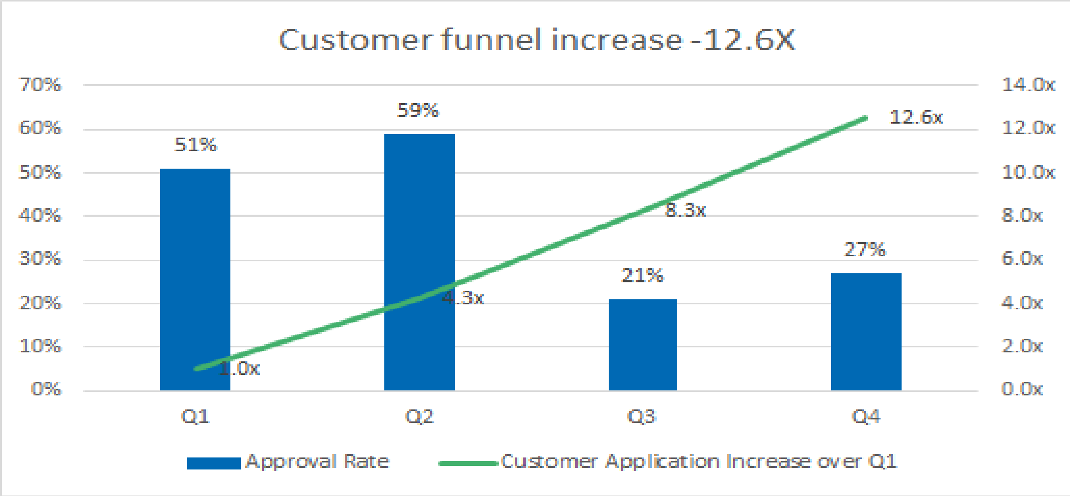


Customers

In our last update we had mentioned that we took a watchful stance in extending credit given the ongoing challenges in the NBFC sector in India. The liquidity squeeze and macro-economic slowdown continues to have an impact on the sector and the SMB segment has seen extension of their debtor days cycle. Given this backdrop we continue to refine our underwriting algorithm to reflect underlying market realities. We remain squarely focused on our target customer segment of micro/small business with turnover of upto INR 250M per annum and our distribution expansion continues to provide us with opportunity to tap into the underserved segment. We ended the year with 434 customers on board, with 177 acquired in Q4FY19, ahead of our revised target of 400+ customers for FY19. Through FY20 we will be accelerating our platform play by extending products across credit (in partnership with leading financial institutions) and beyond credit as we progress to build a best in class MSME centric digital ecosystem. We are excited by the opportunities that the platform can create to acquire new customers who are looking for solutions beyond credit as well as cross sell into our fast-growing customer base.

Disbursals/Approvals

We had enhanced our credit parameters in Q3, which had naturally led to a drop-in approval rate. We have also reduced our average tickets for loans made this quarter further to approximately INR 1.1M against the previous quarter average of approximately INR 1.3M as we have seen better portfolio performance with small tickets. Our channels have re-calibrated accordingly and we have since then seen a pick-up in approval rates to approx. 27% during Q4. We achieved our approval target for FY19 inspite of these changes which is a reflection of our pace of loan pipeline build. Our customer funnel in Q4FY19 recorded a growth of 12.6x over Q1FY19 driven by expanding distribution and platform adoption. Our total disbursal for Q4FY19 stood at INR 194.5M vs INR 129.6M in Q3, a solid growth of 50% QoQ.



We also continue to proactively price for risk as our Q4 disbursal yields inched up again by approximately 58bps QoQ to 21.37% with an average tenor of 19 months. We are focused on building and enhancing our collections capability as we expand our geographical foot print, which we believe will differentiate us from competition in the years to come. We had 5 customers in the 90 DPD+ bucket resulting in a gross NPA ratio of 1.84% and net NPA ratio of 0.74%. These customers were higher ticket loans, and we have seen better asset quality performance in smaller tickets.

Digital Channel and Partnerships

We started to build our direct digital lending and partnership-based business lines in FY19 and we have made steady progress through the year. These channels open up access to a wider set of customers and create opportunities to accelerate market share gains given our ability to customise product coupled with our flexible technology architecture.

Through the direct digital channel, we serve a younger customer base and we spent the foundation year in understanding the channel nuances and created a sustainable go to market framework. We have seen early success in adoption trends but we remained conservative given the nascency of the channel. We currently are keeping this channel on low burn as we continue to learn and build greater product-market fitment.

Our partnership strategy gives us cost efficient market access, accelerates our go to market and product development capabilities. We intend to drive a concentrated approach to partnerships - focus on a few and scale rapidly. We primarily focus on small retail, supply chain and platform-based partnerships. Our pilot which we started in Q3 with an established payments provider that services small retail stores “Kirana” has been successful and we will be scaling this partnership rapidly in FY20.

Solutions beyond Credit

Our service oriented modular tech architecture and the strong customer relationships that our distribution channel brings, allows us to expand our product construct beyond credit and truly deliver a digital platform to our partners and customers. In FY19 we took the first step of expanding our offerings beyond credit with the acquisition of MoneyFront, a digital wealth platform. We see this as an exciting opportunity given low financial savings beyond metro areas in India and the alignment with our distribution channel that is naturally geared towards beyond metros. Once we complete the regulatory approvals, we will accelerate integration of wealth platform into our ecosystem in FY20. Enrichment of our digital ecosystem is our primary focus and we will expand our beyond credit product portfolio to 3 in FY20. We are creating and partnering with exciting companies to bring innovative solutions to market across domains of technology, financial and business services.

Our approach to product creation is ecosystem centric as our offerings are customised and suited to our partners and SMB customers. We see opportunities to leverage the product ecosystem across our three channels - Retail, Direct to Customer and Partnerships.

Technology, Data and Platformification

In the very first year of operations, we are excited to report that not only have we achieved the stability in our platform build but also begun to leverage features such as microsite for our distribution partners. Our end to end digital lending platform captures seamless data flow across customer's loan life cycle which creates superior customer engagement. Our technology construct is geared to carry multiple product offerings, and we will leverage our technology to platformise and quicken our goto market with new product offerings. We are accelerating investments in our analytics and data sciences capability as business growth along with partnerships gives us access to broader data sets. We are leveraging our big data capabilities to drive focus around customer and partner acquisition across specific locations with impactful outcomes.

Financial Highlights

FY19 was the first full -year of distribution and loan book build. We ended FY19 with disbursal of INR 615M and loan book of INR 510M. This is inline with our revised full year target for FY19. We delivered a revenue of INR 242M, a growth of 98% YoY and our cash burn remains moderate driven by our continued focus on cost management even as we continue to invest in building the business and accelerating growth.

INR M	**FY2019** *(31 Mar 2019)*	**FY2018** *(31 Mar 2018)*	*YoY Change*
Revenue	242.3	122.3	98%
Expenses	308.4	148.8	107%
Reported Profit/(Loss) (A)	(66.1)	(26.5)	-
Depreciation and amortization (B)	26.1	5.2	402%
ESOP (C)	36.8	-	-
Cash Profit/(Loss) (A+B+C)	(3.2)	(21.3)	-
Non-GAAP Profit/(Loss) – Ex ESOP charges (A+C)	(29.3)	(26.5)	-

Q4FY19, saw revenue growth of 1% QoQ as contribution from customer revenues continued to move up. Contribution from customer revenues continues to grow and stood at 38% vs. 30% on Q3FY19 and we had a small cash profit of INR0.2M for the quarter.

INR M	**Q4 FY2019** *(31 Mar 2019)*	**Q3 FY2019** *(31 Dec 2018)*	*QoQ Change*
Revenue	64.5	63.9	0.9%
Expenses	87.9	92.9	-5.4%
Reported Profit/(Loss) (A)	(23.4)	(29.0)	_
Depreciation and amortization (B)	6.7	6.6	1.5%
ESOP (C)	16.9	15.14	11.6%
Cash Profit/(Loss) (A+B+C)	0.2	(7.3)	_
Non-GAAP Profit/(Loss) – Ex ESOP charges (A+C)	(6.5)	(13.86)	_

Notes

- *25% Q-o-Q increase in customer revenues*
- *9% Q-o-Q decrease in non-ESOP core operating expenses*

Business Outlook

We remain focused on expanding our distribution channel and in FY20 we expect to exit with 1800 partners. Strong partner addition, rising adoption and digital + partnerships channel will drive strong approval growth in FY20.

	FY19A	**FY20E**
Partners	612	1800
Customers	434	2400+
Approvals/ Disbursals	INR 615M+ (USD8.8M)	INR 1500M+ (USD21.6M)
Partnerships	4	7
Solutions beyond Credit	1	3

Note: FY19- based on average USDINR=69.99. FY20E based on USD/INR = 69.18 as on 29 Mar 2019 closing rates.

In summary, FY19 has been an exciting year as we achieved tech platform stability, began building a robust distribution network and started our journey in two additional business lines of direct digital and partnerships. Despite a mixed external environment our focus in FY20 remains on accelerating the distribution build, scale across the business lines and expand our platform offerings. There is significant growth potential in this space and we are confident about the long-term success.

Thank you for your support and look forward to our continuing engagement in our journey to be India's premier MSME focused fintech ecosystem.

Thank You.

Amit Rajpal
Non-Executive Chairman and Co-founder
Niyogin Fintech Limited