niyogin

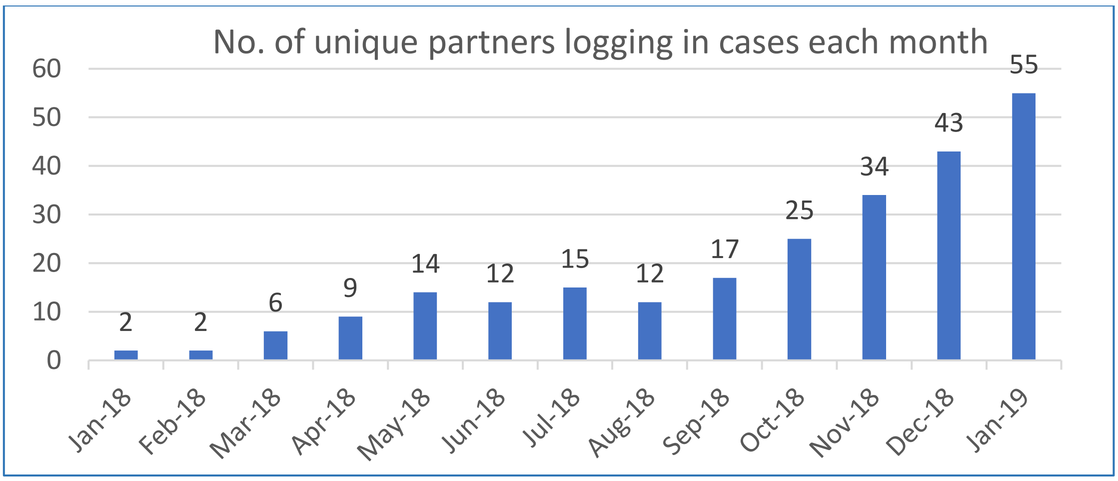
Chairman's Update to Investors: Q3-2019

Q3 2019 has been an exciting quarter for us as our distribution build continued apace, our activation rates increased while we navigated through turbulent credit markets, and new products/solutions came on stream in line with our vision of delivering location or industry focused solutions.

Partners

Distribution is vital to any business as it offers access to customer base - we are working on building the financial professional channel with approximately 600 partners (against our original target of 500) likely to be on-boarded this year. We are also working on activating these partners by training them, building a relationship with them and highlighting the strengths of our digitally enabled business model which could create cross-sell opportunities in their core domains. This is hard work and it takes time but we are experiencing significant buy in from our distribution partners as they understand us better and the differentiation we offer versus conventional financial institutions.

This channel has significant network economics embedded in it as we are growing this through referrals and hence success begets success. As we broaden our distribution significantly beyond the 4 states where we currently have critical mass, our stated objective is to grow this distribution by several multipliers of the current 500 + partners over the next 2 years. We continue to use the wholesale channels (DSAs) on a very selective basis where we see alignment with our own goals of small ticket lending in smaller urban centres. We are very selective in this area given the natural tendency of DSAs to push for multiple credits. 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 activation rate is 29% which is resulting in an increased number of customer referral logins from our partners. Our objective is to have a partner base exceeding 600+ while increasing our activation rate further



Customers

In our last update we had mentioned that we may take a watchful stance in extending credit given the ongoing challenges in the NBFC sector in India. The liquidity squeeze has had a significant impact across the board with even the informal lenders, who are the last line of credit for many of our customers, stopping the extension of credit. We debated on accelerating the deployment of capital as a number of our competitors struggled to gain access to liquidity thereby providing an opportunity to take market share. However, we were cognizant that the lack of liquidity would adversely impact credit quality in our target segment first, especially where borrowers have multiple credit relationships, and therefore we decided to err on the side of caution wrt customer acquisition. We now have over 300+ customers on board, with 100 acquired in Q3, with a revised target of 400+ customers for FY19.

We have adopted this strategy to help us cherry pick the right customer base with the right discipline in a backdrop where the industry is likely to face pressures, we view this as a significant opportunity to upgrade our client base in our focus segments which to remind our investors is small/micro businesses with turnover upto INR 250M per annum operating in smaller urban centres of the country.

Disbursals/Approvals

Given the backdrop above, we enhanced our credit parameters which reduced our approval rates from 40pct+ to approx. 22pct during Q3 and also limited ticket sizes. This resulted in reducing average tickets for loans made this quarter to approximately INR 1.3M against the previous quarter average of approximately INR 2M, thereby reducing origination volumes by 66% quarter-on-quarter (approx. 45% on approval ratios and approx. 35% on ticket size) versus previous run rates. Consequently, we have reduced our approvals target to INR 600M even though the loan pipelines are steadily increasing – we had approximately 2x increase in logins in the last 3 months vs the previous 3 months. We continue to be cautious but increasing pipeline momentum has facilitated INR 58M of approvals in the first month of Q4 vs Q3 total approvals of INR 113M.

While reducing ticket sizes, we have continued to proactively price for risk with our Q3 disbursal yield increasing by approximately 49bps to 20.72% against our H1 average portfolio yield. In parallel we have reduced our average tenor to 19 months from 22 months previously. While enhancing our credit filters, we also deemed it prudent to intensify our collection efforts with a greater on ground presence to ensure we retain primacy of repayment from our customers versus any other credit provider. This has enabled us to maintain portfolio quality with only 1 customer in the 90 DPD+ bucket resulting in a gross NPA ratio of 0.52% and net NPA ratio of 0.26%. We are pleased to share that in a period of a single quarter, we have enhanced portfolio quality – increased yield with reduced tenor and tickets size with lower provisioning.

Digital Channel and Partnerships

We have started to build our direct digital lending and partnership-based business lines - this is an exciting area but we are treading carefully as we aim to understand the economics of the business better and build a funnel that is consistent with our business ambition.

These channels will serve a younger customer base versus our conventional financial professional channel which is focused on more established but underserved businesses. The direct channel has seen robust incoming traffic, with over 20,000 inquiries generated over the last quarter. While we continue to be conservative in our approach on approval rates, this channel has also given us some interesting insights into the prospective customers applying with us thereby helping us refine both our targeting and product strategy to serve this market segment.

We are also focused on working with partners who have datasets on potential customer groups which can be leveraged in the under-writing process - we are excited about a few engagements in this domain where there is alignment. The retail "kirana" segment is a very attractive customer segment given its sheer size (approx. 50m+ potential clients) but is unorganized and highly underserved from a credit standpoint given the high-intensity physical coverage that is required to evaluate these businesses. We are running a pilot in a few cities with an established payments provider which services the retail "kirana" segment. This partnership allows us marry our digital platform capabilities and analytics capabilities with that of our partner's ability to capture data, create datasets for underwriting and collect funds on a daily basis, to establish a model that we can expand across multiple geographies.

The other aspect of our partnership strategy is that it accelerates our product development and capabilities. In this quarter, we have now introduced weekly and daily repayment capability, flexibility around daily repayment structures with grace periods as well as the ability to extend credit on a flat rate for smaller ticket loans. In addition, we are exploring a couple of partnerships around supply chain credit extension which we hope to execute during Q4. The product development through partnerships is enhancing our customization capabilities which is a key factor for sustainable differentiation in the medium to long term.

Solutions beyond Credit

We are gaining in confidence as we continue to build our business for long term success. We believe that there is a significant run way for a customer centric business model which goes beyond offering credit access to focusing on other digitised solutions in other verticals, to this end we have announced the intent to take a majority stake in Money Front, a digital wealth platform.

While we explore solutions externally, we have developed processes for internal efficiency which we believe can be extended to our partners and customers. The transition of consuming services internally to extending services externally being planned for calibrated execution into FY 2019-20.

Technology, Data and Platformification

We have achieved stability in our platform build, which is India's first end-to-end digital business loans platform and now have a seamless view of the data flow across the origination and servicing journey of a customer's loan life cycle. Our attention going forward will be on enhancing our customer and partner experience and during this quarter we aim to roll out a truly unique unified login module wherein our partners, customers and employees will have the ability to digitally complete customer journey on the platform in a collaborative fashion.

Our data architecture and infrastructure for operational data store which is the base for reporting and analytics has been built using state of the art tech stack- cloudera/ Hadoop components – gives us significant flexibility on analysing structured and unstructured data. We are improving on our analytical/data driven approach as we broaden our internal data sets which when combined with the analytics infrastructure and stability of the digital platform, should help us differentiate and embed our competitive advantage in the coming months. Our increasing capability to analyse external data sets and combine with our internal partner/customer data is allowing us to sharpen our strategies around geographies, industries, segments, customer and partner profiles and scorecarding - thereby increasing efficient decisioning and accelerating execution.

Financial Highlights

As mentioned earlier, we have reset our full year disbursal targets significantly to ensure we maintain/enhance portfolio quality. Despite the change, we expect to meet our P&L targets for the full year given our continued focus on cost management while we build the business and the platform.

INR M	Q3 FY2019 *(31 Dec 2018)*	Q2FY2019 *(30 Sep 2018)*
Revenue	63.9	59.1
Expenses	71.2	60.8
Depreciation & Amortization (non-cash) (A)	6.56	6.91
Profit/(Loss) (ex ESOP amortization cost)	*(13.86)*	*(8.61)*
ESOP (B)	15.14	4.81
Profit/(Loss) (C)	*(29.0)*	*(13.4)*
Cash Profit/(Loss) (A+B+C)	(7.3)	(1.7)

Notes

- *49.4% Q-o-Q increase in customer revenues*
- *Increase in customer revenue contribution to 30% in Q3 from 22% in Q2 overall revenues*
- *14.9% Q-o-Q increase in non-ESOP core operating expenses*

Looking forward

We have recalibrated our goals for FY 2019 given our desire to maintain portfolio quality during the continuing uncertain credit and liquidity conditions which is expected to continue for the next few quarters.

FY 2019	Original Target	Revised Target
Partners	500	600
Customers	1000+	400+
Approvals	INR 1600M+	INR 600M+
Partnerships	2	4
Solutions beyond Credit	1	1

In summary, our financials are tracking in the right direction, despite the calibrated volume slowdown in Q3, we have gained in confidence in our tech platform, our expanding distribution base, underwriting capability, digital property/partnerships and see the recent market disruption as an opportunity to build our business with the right ethos. There is significant potential in this space and we are confident about the long-term success of our evolving propositions.

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

Thank You.

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

Email: investorrelations@niyogin.in