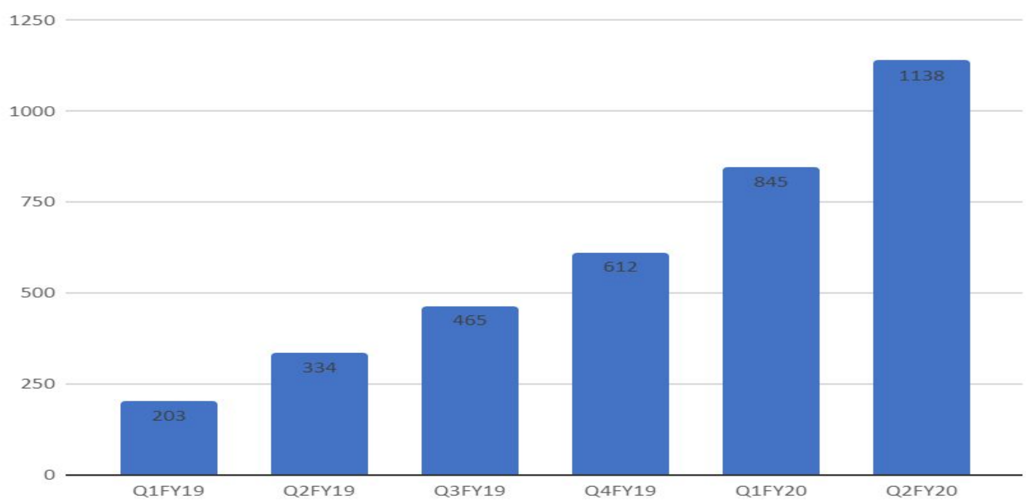
niyogin

Chairman's Update to Investors: Q2-2020

Q2FY20 has been an enthusing quarter as our distribution build continued apace, our platform promise begins to take shape as we introduced new products and added wealth to our platform fold with the closure of Moneyfront acquisition. We ended the quarter with a total platform customer base of 14,663 across products and our retail partner network expanded to 1,138. On credit, we ended Q2FY20 with a loan book of INR 703M (USD9.98M) and a disbursal of INR 243M (USD3.45M). Our direct wealth business performed well despite choppy equity markets and we ended the quarter with AUMs of INR 6,316 M (USD 89.4 M), growth of 19% QoQ. We continue to make good progress on our partnerships. We remain steadfast in our vision to be the digital platform empowering small businesses through our proprietary distribution model.

Partners

Partner network expansion remains a top priority for us and we remain focussed on taking our partner base to 1800 partners this year – in line with our full-year guidance. We ended the quarter with 1,138 partners vs 845 in Q120, up 35% QoQ. We are leveraging our critical partner base in geographies that we seeded last year and deepening our penetration in these geographies. The entry arrowhead for new geographies is digital partner acquisitions. However, as we drive to build deeper penetration in each location, we are appending these geographies with on the ground sales team. In line with our strategic objective, our partner distribution networks remain geared towards network beyond metros. The microsite program continues to see good traction and we have grown our partner mircrosties by 50% QoQ to 150+. This validates our differentiated approach of empowering our partner channel across that creates a solid value proposition. As we continue to accelerate our partner buildout through FY20, our product approach remains solutions centric. We are confident that these will empower our distribution partners and allow them to experience the differentiation of our platform.



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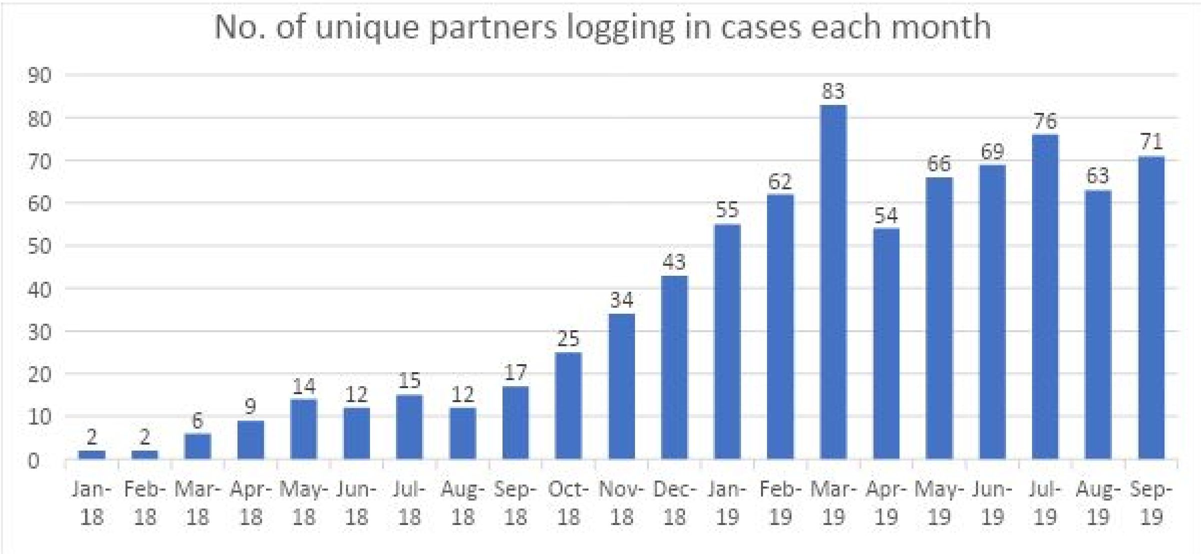
Given the challenging macro-economic environment and its impact on small businesses, we remain guarded in our credit underwriting. We have tightened customer and sector selection criteria across our retail partner channel. This has led to higher upfront rejects in the channel and has impacted our activation rates for the quarter. On the other hand, we are encouraged by new partner additions, and our investments in handholding these new partners for platform adoption continues. New partners have a learning curve on the platform adoption and we expect the current set added in 1HFY20 to get progressively active. We are happy to report that even with a more guarded underwriting, higher upfront rejects, sector selection and strong new additions, our cumulative activation rate stood improved 200bps QoQ to 27% in the quarter.

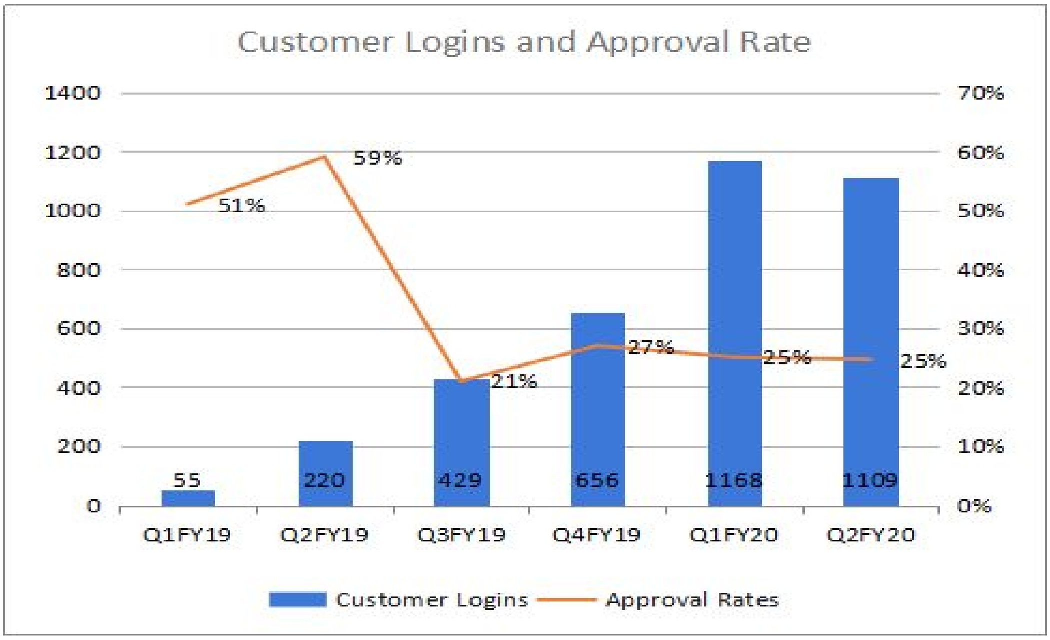


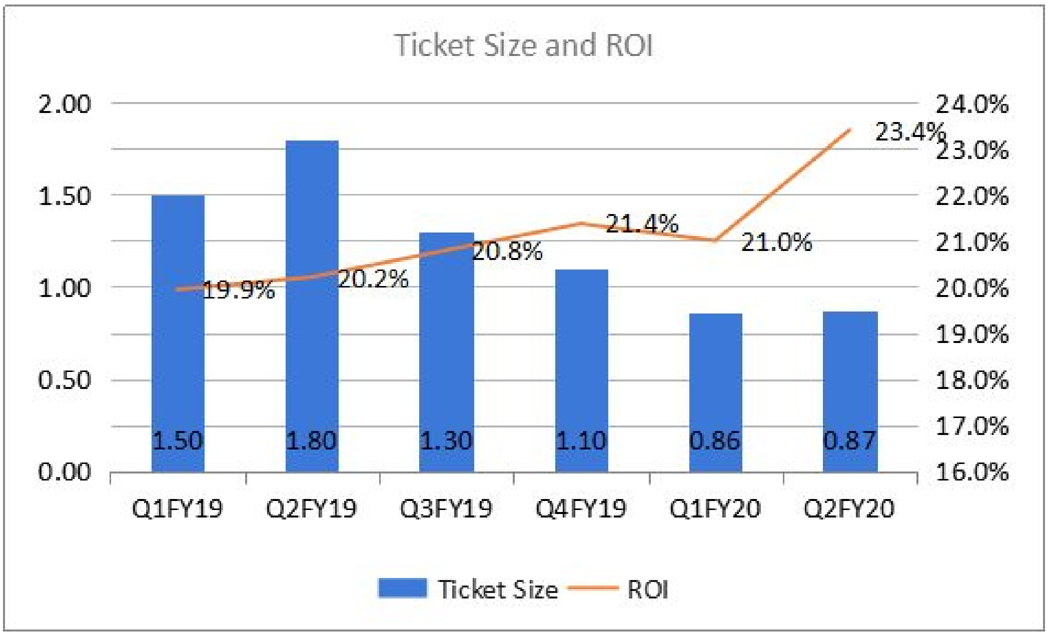
Customers

Our platform approach allows us to address customers' needs beyond just credit and acquire customers across various segments. This in-effect creates numerous cross-sell opportunities within our platform customers across products that we have today and the ones that we are building. This quarter we are excited to report for the first time a total platform customer base with the closure of our wealth acquisition. Our platform customer count stands at 14,663, a L-F-L growth of 4.7% QoQ. We acquired 216 new credit customers in the quarter and 446 customers beyond credit. Our retail partner channel build continues and this along with partnerships remains the primary customer acquisition channel for us. Our payments partnership is scaling up steadily that allows us to tap into a massive small retail store opportunity. In addition to the horizontal customer acquisition strategies through our retail channel and partnerships, our domain-centric partnership in the fashion supply chain segment that we announced last quarter is ramping up well. We are working with our partner to expand product penetration to solve problems for the segment ranging from short-cycle tech-driven trade finance to small ticket pay-later solutions.

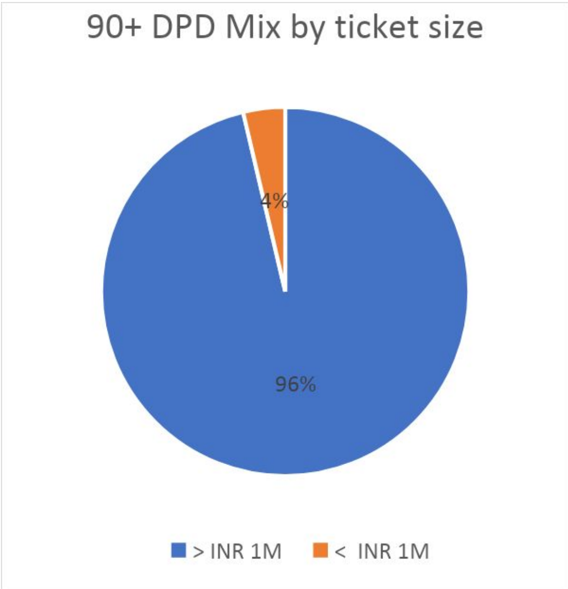
Credit

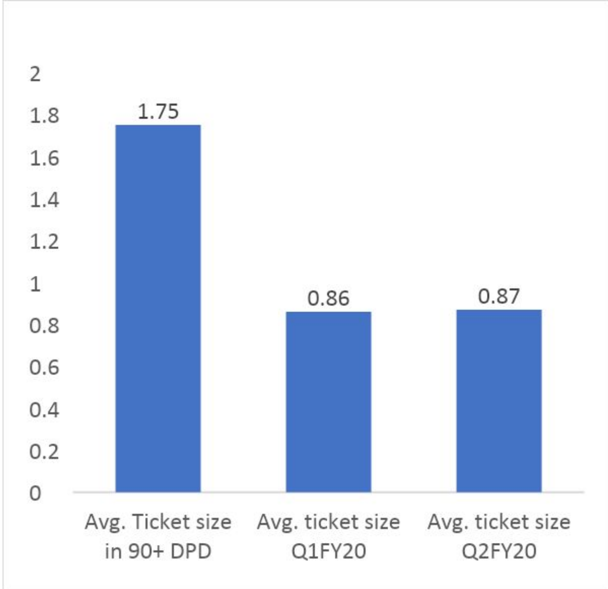
Our total disbursal for Q2FY20 stood at INR 243M vs INR 232M in Q1, up 5% QoQ. Our approval rates stood at 25% for the quarter. As highlighted earlier we have seen better portfolio performance with small tickets and we continue to focus on keeping our ticket size in check. Our like for like ticket size stood at INR0.87M as against INR 0.86M in the previous quarter. We are progressing well on executing on the bank partnership, and we expect larger ticket sizes and customers outside our target segment to be fulfilled by our bank partner.





Our Q2 like for like disbursal yields stood at 23.4% as against 21.0% in Q1, an improvement of 240bps QoQ. This is driven by our focus on deepening market reach and mix shift towards small ticket customer segments. Our average tenor for the quarter stood at 23.8 months vs. 19.5 months in Q1. Given the challenging environment, we believe it is prudent to offer higher tenors. We continue to invest in enhancing our collections capability as we expand our distribution network and geographical footprint. As highlighted in Q1 our Agri trading exposure is delivering sub-optimal results that continue to contribute to 90+ DPD buckets. We have already taken the corrective actions over the past two-quarters visible in our ticket sizes, yields and have been judicious in customer selection given the stress external macro environment is exerting on small businesses. This has impacted our disbursements in 1HFY20, but we believe that it is prudent to exercise caution given the weak environment. Overall our gross NPA ratio stood at 3.52% and the net NPA ratio was 1.26%. We have a judicious provisioning policy in place and our provision coverage is more than adequate.





Digital Channel and Partnerships

We started to build our direct digital lending and partnership-based business lines in FY19. Our partnership strategy is squarely focussed on small retail and supply chains that are platform-based. Within this, payments led partnerships remain a core focus as these give us access in small retail store segment with non-traditional transaction-based underwriting. Our targeted partnership approach has begun to deliver encouraging early results across both yield and asset quality metrics. Our fashion supply chain partnership that we announced in Q1 is ramping up well and we are working towards expanding the same to small ticket merchant segment on the platform. Overall our partnership pipeline is strong and we expect these to ramp-up over 2HFY20.

On the direct digital channel, we have been keeping this on low burn due to prohibitive customer acquisition costs. The channel is complex and our strategy is to build this channel through a product pull approach by solving specific problems to deliver a cost-efficient customer acquisition model. We have a few pilot product programs underway to learn and test the best product fit for the channel.

Products

Our value proposition to our customers and partners remains of bringing best in class products that are designed to solve for small businesses. Through our partnership with some exciting companies, we have introduced two new credit products in the quarter, along with the introduction of our direct wealth product. These products are end-use centric that is solving specific problems of small businesses such as supply chain credit and enabling GST compliance. Both these products are well suited to our distribution channel which comprises of finance professionals, who directly work with SMEs on compliances as well as support on supply chain working capital. Our wealth platform continues to see good traction with industry-leading statistics of AUM/customer. We continue to expand the product stack on the wealth platform beyond equity products to include a wider range of fixed income products, analytics and global products as we position this as a premium wealth platform serving all asset class requirements across India. Our deep distribution model is a unique cost advantage for the wealth platform to expand beyond metros and we expect to drive continued share gains in this category. We are excited to report that our relationship with India's leading new generation private bank is progressing well where we mutually leverage each other's products

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in conjunction with niyogin’s unique retail partner distribution as well as the partnership channel. Additionally, we are working with premier housing finance company to combine their products and our distribution platform.

Partnerships in progress
Leading Private Sector Bank
Premier Housing Finance Company
B2B Fashion Internet Platform
Small business owner centric platforms (ex - Payment)
Insurtech Platform
Compliance API Platform
Tech platform as a service

Technology, Data and Platformification

At Niyogin we are now live with our data architecture. We have built both structured and unstructured data capabilities using Big data components . All our functions have information analytics and Management information systems automated to drive efficiency across business critical process. Decisions are now based on data information available through operational data store which is provided using visualisation tool. As we bring in more customers on the platform across credit and non-credit products, we are investing in our analytics to leverage on potential cross-sell opportunities across our product stack. On the credit side, we continue to drive iterations on our lending algorithms. We have automated and redefined score cards across our product, top Industry segments etc basis data plus experience we have gathered since inception. This scorecard is built using rest api for data flow and business rules engine components in which Niyogin has invested since inception. We are working towards monetising our platform stack as a service, specifically for emerging financial services companies. We have a partnership underway in this regard that will allow us to build PaaS based revenue stream. Our tech architecture remains agile and future ready to absorb and deliver a multi product stack platform proposition to our customers and partners.

Impact

Impact for Niyogin isn’t peripheral but is a constant endeavour to root this within our operating business. This is reflected in our distribution network that is geared beyond metros, products that we bring to market and target market (90%+ customers are sole proprietors). Our small new to credit customers (NTC) portfolio continues to perform well; and to accelerate this we have specifically designed a program to address new to credit customers. NTC remains a large impact area with a massive opportunity and we have begun taking small steps towards building these capabilities. We are further appending the impact by bringing in a direct wealth platform beyond metros to empower the self-employed to move to financial savings with a wide-ranging product stack. Our new GST compliance product again is designed to empower small businesses to improve their governance and compliance. We continue to see good traction in our lower ticket size loans with the option of daily installment to repay easily. We remain committed to delivering an impact centric problem-solving approach to small businesses and business owners.

Financial Highlights

Starting FY20, as per statutory requirements, the company has adopted Indian accounting standards (Ind AS). As part of Ind AS adoption, we have moved to an expected credit loss (ECL) method for provisioning from FY20. The ECL statistical model is applied across the investment and the total loan book. There are two major components to ECL based method of provisioning 1) Probability of default (PD) and 2) Loss given default (LGD). The switch to

ECL based provisioning for a young organisation like ours leads to a more conservative provisioning approach given limited data history that feeds ECL's statistical models.

The Moneyfront acquisition was completed on 19 August 2019 and has been consolidated as of 30-Sep-2019 for the said period.

For Q2FY20, on a standalone basis we had disbursals of INR 243M, up 4.74% QoQ and a loan book of INR 703M, up 6.1% QoQ. On a standalone basis, we delivered a total income of INR 62M, a growth of 12% YoY and we delivered a customer revenue growth of 15.5% QoQ. Contribution from customer revenue continues to grow and stood at 64% vs. 49% in Q1FY20. On a consolidated basis, the contribution from Moneyfront is small as this was for a short period. Further Moneyfront has major contribution from advertising revenues which has seasonality and lumpiness towards 4Q of the fiscal year.

Our cash burn for 2QFY20 was at INR 35M, primarily driven by ECL. The increase in ECL from Q1 to Q2 has been impacted by higher LGD assumptions (65% from 50% earlier) on the loan book and our investment book (40% to 50%). The total impact of this change is INR 5M, with INR 4.5M for loans. With higher LGD in the ECL, we have more than adequate provisioning levels and these assumptions give us very high coverage even on our standard book. Our 30+ book is more than 70% provisioned basis the ECL methodology. Overall adoption of ECL has caused P&L volatility in 1HFY20 but we have chosen the most prudent and conservative estimations both on the parameters of PD and LGD versus normal industry practice. In our view, ECL costs should moderate from 2HFY20 and into FY21 as we build more data history. This will be driven by a larger cohort, improved cohort movement, greater data history, the maturity of treasury investments, and high current provisioning levels.

We remained focussed on cost efficiency and our cash operating costs (excluding ECL) have remained flat QoQ. We believe with an improved growth outlook for 2HFY20, moderating ECL charges and continued focus on cost efficiency open up significant room for operating leverage through FY20 and FY21.

Standalone (INR M)	**Q2FY2020** *(30 Sep 2019)*	**Q2FY2019** *(30 Sep 2018)*	**YoY Change**
Total Income	61.8	55.4	12%
Total Expenses	118.6	68.5	73%
ECL	29.1	-	NM
Reported Profit/(Loss)	-56.8	-13.1	NM
Depreciation and amortisation	8.7	8.3	5%
ESOP	12.5	4.8	160%
Cash Profit/(Loss)	-35.6	0.0	NM

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Standalone (INR M)	1HFY2020 *(30 Sep 2019)*	1HFY2019 *(30 Sep 2018)*	YoY Change
Total Income	126.8	106.3	19%
Total Expenses	219.7	120.8	82%
ECL	42.2	-0.5	NM
Reported Profit/(Loss)	-92.8	-14.4	NM
Depreciation and amortisation	17.2	14.1	22%
ESOP	23.8	4.8	358%
Cash Profit/(Loss)	-51.8	4.9	NM

Business Outlook

We remain committed to our targets and our business outlook for FY20 is unchanged. Our expanding network, product introductions and accelerating partnerships give us confidence of improving customer volumes through 2HFY20. While the external environment remains challenging, we maintain our approvals/disbursals guidance for FY20E.

	FY19A	Q1FY20A	Q2FY20A	FY20E
Partners	612	845	1138	1800
Customers*	434	606	822	2400+
Approvals/ Disbursals	INR 615M+ (USD8.8M)	INR 232M (USD 3.4M)	INR 243M (USD 3.45M)	INR 1500M+ (USD21.2M)
Partnerships	4	5	6	7
Solutions beyond Credit	1	1	1	3

*Note: * Credit customers. FY19- based on average USDINR=69.99. FY20E based on USD/INR = 70.65 as on 30 Sep 2019 closing rates.*

In summary, we continue to make good progress on our distribution build with a focus on building a platform dedicated to solving for MSMEs. We have taken a more guarded approach towards credit underwriting given a very tough external environment. That said, we continue to steadily build and execute the platform strategy with the addition of new products and bank partnerships. At the beginning of the year, we had outlined our strategic priorities which include a 3X expansion of our distribution network, new products and scaling our partnerships. Our execution remains focussed on the same and we are on track to deliver on all three aspects. A strong balance sheet provides us with a solid base to capture the 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