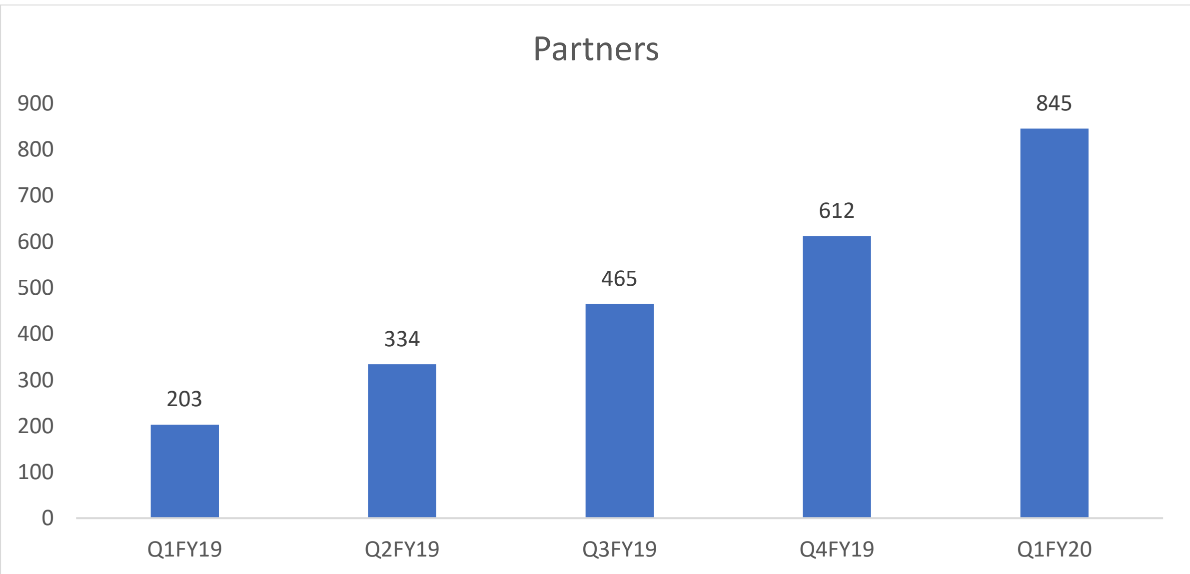
niyogin

Chairman's Update to Investors: Q1-2020

FY20 has been off to a steady start with strong momentum on our distribution buildout and continued traction on new disbursals. We ended Q1FY20 with a loan book of INR 663M (USD9.6M), disbursal of INR 232M (USD3.4M), 845 partners and 606 customers. This has been an exciting quarter where we broke ground on a partnership with a key partner bank and we also completed our first supply chain financing transaction with Asia's leading internet B2B fashion platform. We remain steadfast in our vision to be the digital platform empowering small businesses through our proprietary distribution model.

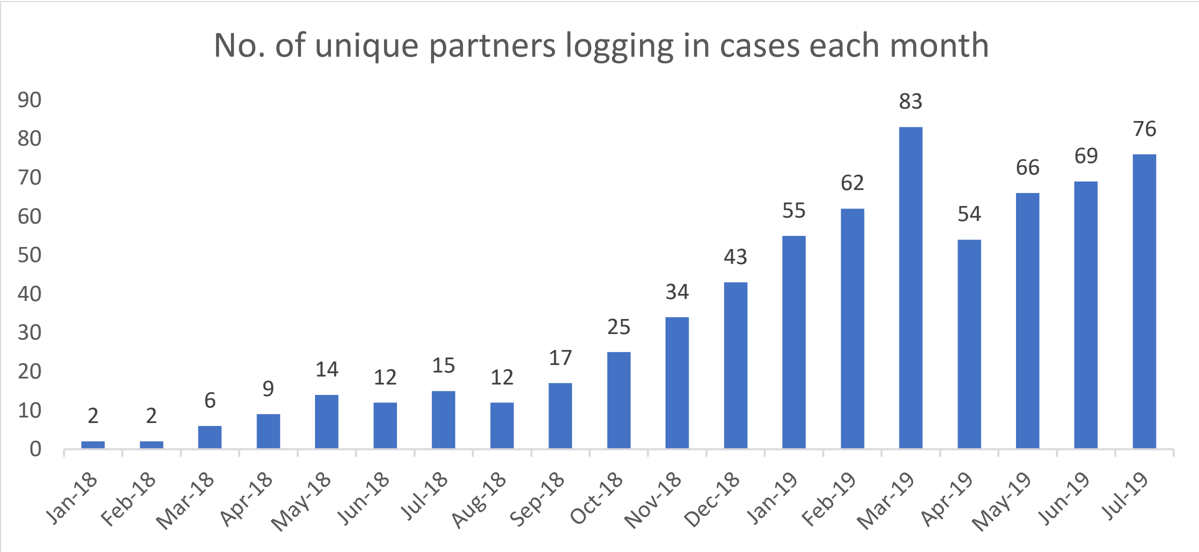
Partners

Distribution through the financial professional channel is the cornerstone to our business and we ended the quarter with 845 partners vs 612 in Q419. We are confident of taking our partner base to at least 1800 partners this year – in line with our full-year guidance. Our partner acquisition strategy through FY20 focuses on deepening our penetration in existing markets. To achieve this, we now have a critical base in geographies that we seeded last year. These partners are driving our referral-based addition thereby giving us flex on the cost of acquisition as well as deepening our network. This in effect is allowing us to slowly raise entry barriers as we build network market share in each district. In line with our strategic objective, our partner distribution networks remain geared towards network beyond metros. Our microsites program for our partners to create a digital footprint for them has been met with encouraging response. We are pleased to announce that we are nearing 100 microsites for our retail partners. This validates our differentiated approach of empowering our partner channel across various domains and continues to create a premium experience for our partners. As we continue to accelerate our partner buildout through FY20, we have solid product initiatives lined up for the year, that are customised to solve specific problems. We are confident that these will empower our distribution partners and allow them to experience the differentiation of our platform.



In line with our last quarter's communication, we remain predominantly focused on our proprietary retail partner channel and have moderated the sourcing from the third-party wholesale channel in Q1FY20.

Over the past quarter, we drove a more focused sector selection process within our retail partner channel. This was done to proactively reflect the slowing macro-economic environment and our guarded credit underwriting approach, thereby resulting in higher upfront rejects. Additionally, to accurately measure our unique active partners, we have further refined and tightened our document completion TATs. These two changes impacted our unique active partner number in April. The channel has adjusted to reflect these changes and we have seen month on month improvement in active partners through the quarter. Our accumulated activation rate stood at 25% in the quarter; however, our unique active partners in July are 41% higher than April. Additionally, we continue to improve logins/active partner which is reflecting in a sharp growth in customer funnel.

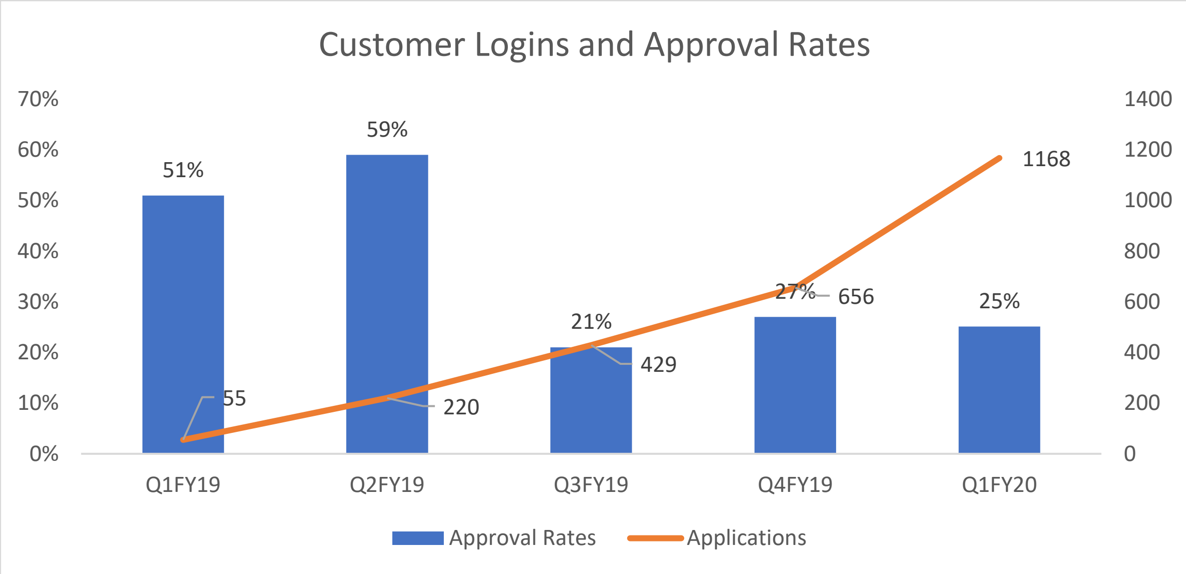


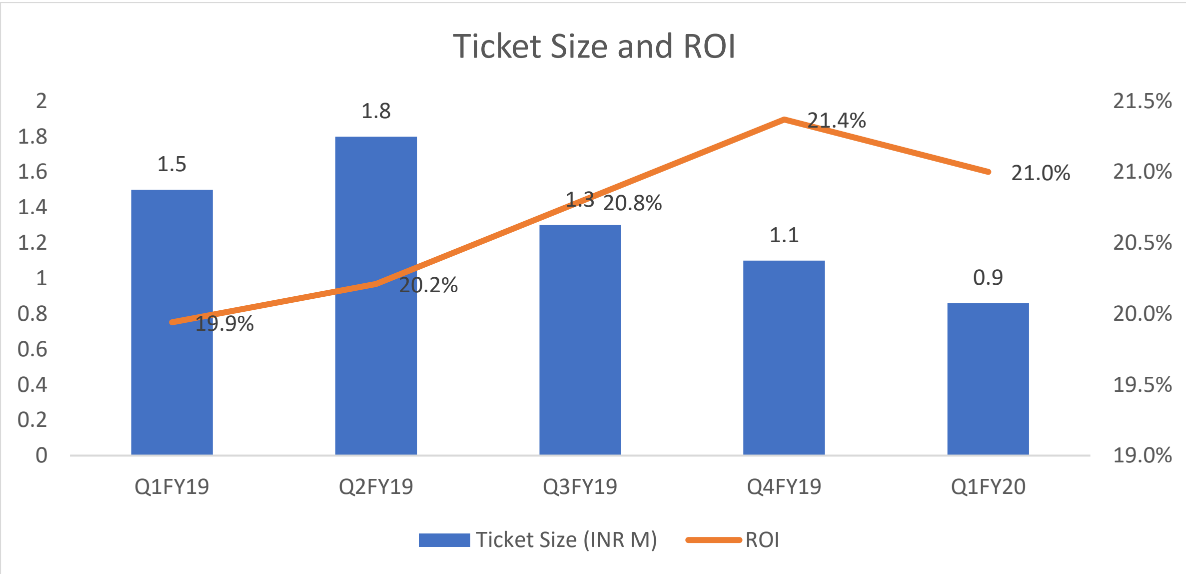
Customers

We are excited to report that our distribution network continues to expand and opens the new underserved market. Our customer count has grown 39% QoQ to 606, with 172 acquired in Q1FY20. Our retail partner channel build continues and remains the primary customer acquisition channel for us. Our payments partnership is scaling up rapidly 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, we are building focus on acquiring customers in the MSME intensive industry segment like textile and garments which has the biggest supply chain globally and in India, and thereby has numerous problems to solve. We started a new exciting partnership that gives us new market access to tap into customers looking for trade finance with our internet based B2B fashion supply chain partnership. With this, we are building domain capability in the fashion sub-segment, with a high-velocity trade finance product delivered on the go. We financed 100+ transactions for a small set of customer base, reflecting the velocity that this partnership can bring.

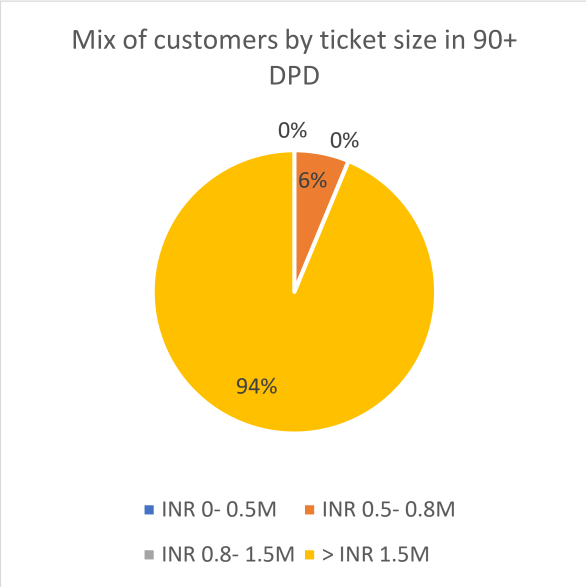
Disbursals/Approvals

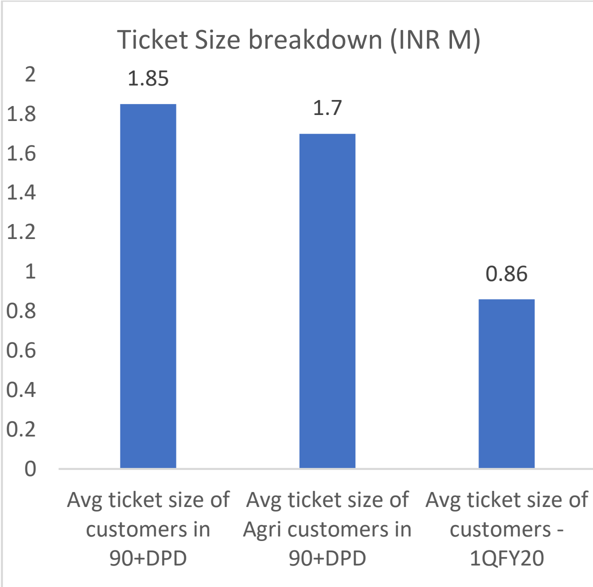
Our total disbursal for Q1FY20 stood at INR 232M vs INR 194.5M in Q4, up 19% QoQ. We saw 21x YoY growth in our customer funnel fueled by expanding distribution and rising logins per active partner, even as we remain guarded on our underwriting given soft macro environment. Our approval rates stood at 25% for the quarter, marginally lower than Q4. We continue to push down our average ticket sizes and our like for like ticket size stood at INR0.86M as against INR 1.1M in the previous 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. Further, we expect large ticket sizes and customers outside our target segment to be fulfilled by our bank partnership.





Our Q1 like for like disbursal yields stood at 21% as against 21.4% in Q4 with an average tenor of 19.5 months. We continue to invest in enhancing our collections capability as we expand our distribution network and geographical footprint. As highlighted at the beginning of FY19 we had taken up some small targeted pilot exposure towards sectors such as Agri trading as we wanted to test various sub-segments, customer turnovers and ticket sizes where we can build specialized underwriting. The experience with this sub-segment has been suboptimal with the pilot customers moving to the 90+ DPD bucket. Most of these customers were high turnover with higher than our current average ticket size loans. We have already taken corrective action and over the past 2 quarters, we have stopped these sub-segments and substantially reduced our average ticket size to INR0.86M vs. INR1.8M in Q2FY19. Overall our gross NPA ratio stood at 2.39% and net NPA ratio was 1.21%.





Digital Channel and Partnerships

We started to build our direct digital lending and partnership-based business lines in FY19. As discussed in our earlier note, we have spent the foundation year in understanding the channel nuances. The customer acquisition costs in the channel remain high, and we continue to keep this channel in low burn through FY20. We will continue to learn and test new product launches in this channel to narrow down on the best product fit that creates a product pull centric model, which can deliver an efficient customer acquisition cost dynamic.

Our partnership strategy focusses on small retail, supply chain, and platform-based partnerships. The focus remains on select partnerships, build domain capability and accelerate our market access. To tap into the small retail store “Kirana” segment we had started a pilot in FY19 with an established payments provider. This partnership is rapidly scaling and we have further identified a pipeline of new payment led partners that are expected to move into the pilot stage and turn commercial through FY20.

Products

Our approach is to bring best in class products to small businesses by leveraging our unique distribution network of financial professionals. To this effect, we are partnering with exciting companies ranging from tech startups to large banks to create a curated digital ecosystem for small businesses. In conjunction with our expanding our distribution network, we need to introduce new products in a calibrated manner to capitalize on this unique market access that our channel provides. In Q1FY20, we have laid the foundation for two new products which will be launched in Q2FY20. We are excited to begin our relationship with India’s leading new generation private bank to leverage both our retail partner distribution as well as the partnership channel. On solutions beyond credit, we are pleased to inform that Moneyfront has received required regulatory approvals. We will now accelerate the integration of the wealth platform into our ecosystem in FY20.

Further, we are building a joint program with our bank partner with niyogin as the credit switch for trade finance across the platform. This program is specifically curated and displays our ability to bring tech-powered best in class solutions. This partnership presents an opportunity for us to build deep data and domain understanding of the fashion sub-segment which can be leveraged to build solutions for our retail partner channel.

Technology, Data and Platformification

This year our focus is towards making the organisation an analytical driven digital lending organisation. We are accelerating investments in our analytics and data sciences capability as business growth along with partnerships gives us access to broader data sets. Our data architecture using big data components are built and are live. This unique architecture enables organisations to map external unstructured data with internal structured data to build Goto market strategy. As part of the first sprint, we have already begun leveraging our big data capabilities to drive focus around customer and partner acquisition across specific locations with impactful outcomes. We are further refining our technology construct to carry multiple product offerings. This will allow us to leverage our technology to platformise. Our current data architecture enables us to track unified customer view using Golden id principle mapped across various credit and non-credit products.

Impact

As we build a small business-centric fintech platform, what deeply resonates with us is the impact we are creating by empowering these small businesses and local entrepreneurs. Our entire distribution network across our retail partners and the partnership platform is naturally geared towards the underserved segment. Over 90% of our customers are proprietors primarily operating beyond Tier I cities. We not only drive financial inclusion by providing them with capital but also custom build products to address their needs across investments, business growth and digital technology. These initiatives include lower ticket size loans to address the local needs, option of daily instalment to repay easily and we are making investments in alternate underwriting to asses New to Credit customers. The microsite is yet another example of a digital impact our offering is creating for our partners that help drive business growth for them.

Financial Highlights

Starting Q1FY20, 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 method for provisioning. Accordingly, we have re-stated our Q1FY19 as per Ind AS to draw like for like comparison. Q1FY20 has started on a steady note with disbursals of INR 232M, up 19% QoQ and a loan book of INR 663M, up 28% QoQ. We delivered total income of INR 65M, a growth of 28% YoY and our interest income has grown 45% YoY Q1FY20. We delivered a customer revenue growth of 25% QoQ. Contribution from customer revenue continues to grow and stood at 49% vs. 39% in Q4FY19. There has been a front-loading of costs in Q1FY20 to provide us with a runway for expansion leading to a cash burn of INR 15.7M in the quarter. Our business model has significant operating leverage as we expand our distribution, increase activation and add product offerings on the platform. We remain focused on cost management to keep cash burn under check, even as we continue to invest in distribution, talent and products.

INR M	Q1FY2020 *(30 Jun 2019)*	Q1FY2019 *(30 Jun 2018)*	YoY Change
Total Income	65.0	50.9	28%
Expenses	101.1	52.2	93%
Reported Profit/(Loss) (A)	(36.0)	(1.3)	NM
Depreciation and amortisation	8.6	5.8	47%
ESOP (B)	11.4	-	NM
Cash Profit/(Loss)	(15.7)	5.7	NM

Business Outlook

We maintain our business outlook for FY20 as 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	Q1FY20A	FY20E
Partners	612	845	1800
Customers	434	606	2400+
Approvals/ Disbursals	INR 615M+ (USD8.8M)	INR 232M (USD 3.4M)	INR 1500M+ (USD21.7M)
Partnerships	4	5	7
Solutions beyond Credit	1	1	3

Note: FY19- based on average USDINR=69.99. FY20E based on USD/INR = 68.95 as on 30 Jun 2019 closing rates.

In summary, we have had a steady start to the FY20 as we laid the foundation for the various initiatives for this year. We will accelerate our execution on these foundation blocks throughout this year. 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. We are well-positioned to execute on all three. Despite a tough external environment, we continue to see strong platform adoption and have maintained our business outlook for FY20. 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