niyogin

Chairman's Update to Investors: Q1 FY2020-21

Last few months will be recorded as the most unprecedented in the human history with tremendous effect of COVID-19 pandemic on lives and businesses. While this has created very challenging environment for all businesses, including us, we also believe that this pandemic has created and accelerated the need for digitisation especially for micro/small businesses (MSMEs) which operate with a heavy manual set up -this is a huge opportunity and we are devoting a lot of management time and resources in addressing this.

This presents a tremendous opportunity for Niyogin which is aligned to our vision of creating digital platform for MSMEs. We have been actively working through this quarter to execute on our strategy to being fully tech-centric and credit light. We have made steady execution progress over the past quarter. Our distribution build momentum accelerated with highest every quarterly partner addition. Our digital WealthTech SaaS platform has seen strong adoption in the first couple of months of launch. This adoption reflects the demand and rapid shift towards a fully digital delivery model from physical operating models. Additionally, we are piloting a tech eco-system which enables us integrate into the work flow of the client base as well as our network partners.

We have remained focused on de-risking our current loan book and re-aligning our cost base, we have made good process on these initiatives. This realignment creates room for us to allocate capital in right areas as we work towards new products and delivery mechanisms. On balance sheet, we have remained very watchful and have not been putting on risk. The current focus remains on collections and progressively we intend to narrow the credit focus and identify and accelerate specialised segments. In summary, we are re-wiring Niyogin to be tech-centric ecosystem, more specialised and data driven from a credit standpoint and capital-efficient, and we look forward to this exciting journey.

Key Highlights – Q1FY21

- Retail partner base of 2,733, growth of 42% QoQ YoY
- 808 retail partners added – highest ever in a quarter
- Highest single month activation rate in the month of June – 4x of 6 month average.
- Registered platform customer base of 19,853, a L-F-L growth of 34% YoY
- Wealth AUM of INR 6,827M, up 28% YoY
- Loan Book of INR 1,370 M, up 104% YoY

We ended the quarter with a registered platform user base of 19,853 and our retail partner network expanded to 2,733 with highest ever additions in a quarter. On credit, we ended Q1 FY21 with a loan book of INR 1,370M and a disbursal of INR 36M. The disbursements are in line with our revised strategy to de-focus on generalized credit, de-risking our existing exposure and weak external operating environment. Our WealthTech business continues to see good traction both on direct to customer and B2B. We ended the quarter with wealth AUM of INR 6,827 M, growth of 28% YoY despite market volatility and risk aversion in debt mutual fund category.

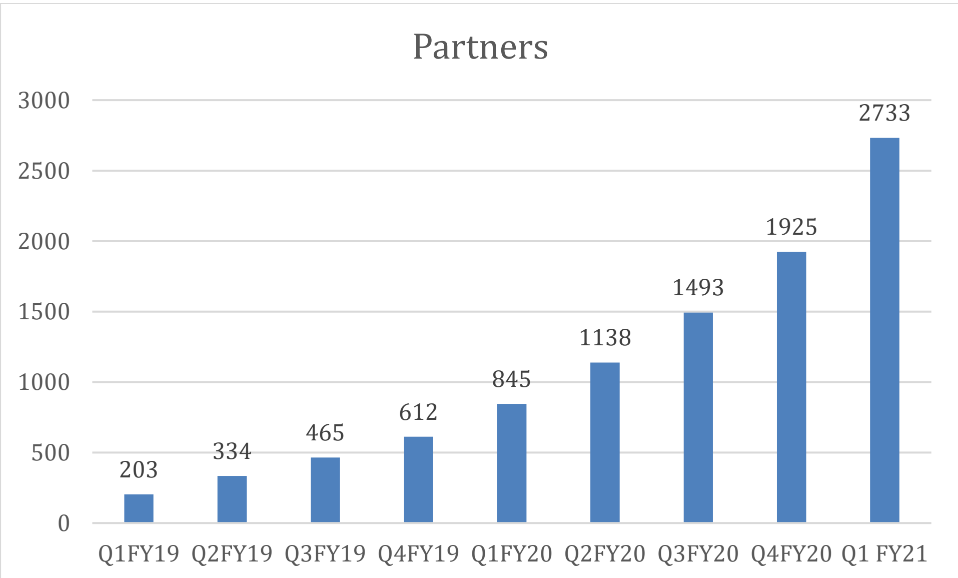
	Q1FY20A	Q1FY21A
Retail Partners	845	2,733
Platform Users (L-F-L)*	14,846	19,853
Activation Rate	21%	14%
Wealth AUM	INR 5,321 M	INR 6,827 M
Platform Solutions	1	4

*Note: * Defined as partners + customers on-boarded on the platform.*

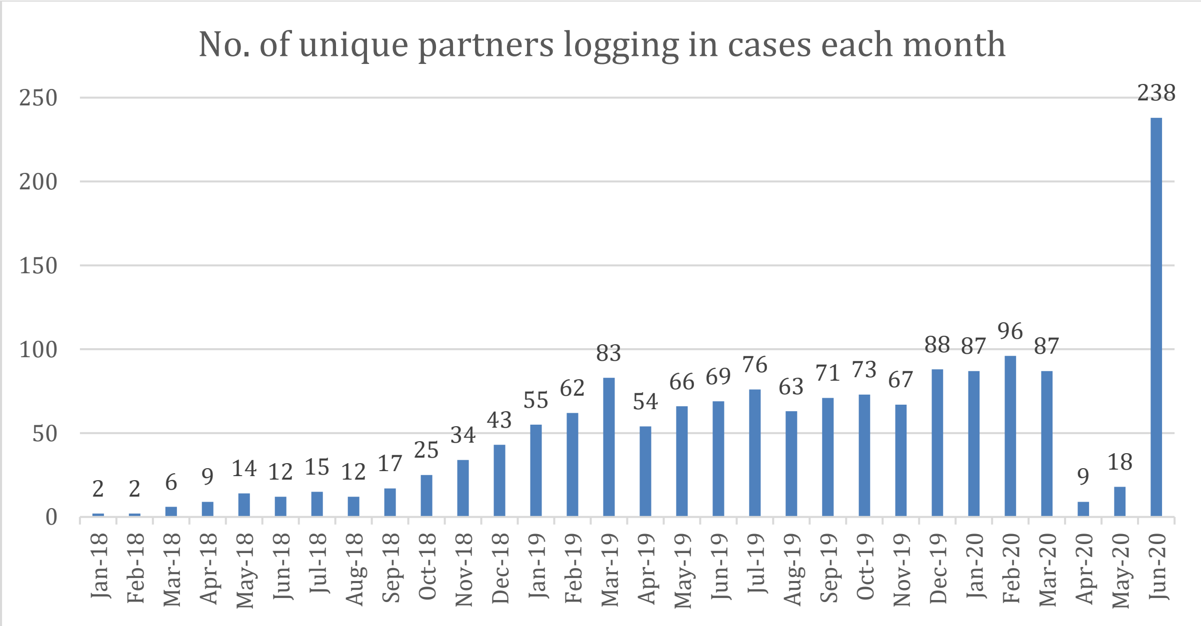
Partners

Our partner network expansion gained further momentum this quarter as we added 808 partners - highest ever addition in a single quarter. We ended the quarter with 2,733 partners vs 845 in Q1FY20, up 3x YoY. As we had highlighted in our previous update, our focus is on building deeper penetration in each location and we have been complementing these geographies with the on-ground sales team. As outlined in the strategy above, we have begun to leverage this channel for our non-balance sheet centric products. This was the first quarter of the full-throttle execution on non-balance sheet centric and we have seen strong response.

We are focused on expanding our product stack on the platform to leverage the full potential of this distribution network. The demand for a fully digital platform for our partners has seen strong traction. Our focus in FY21 is to drive this mission to rapidly scale this network and deliver the platform play. We continue to believe that getting into the workflow of the partners and using that to access MSME's is the part forward as we digitize our business model – we are piloting a tech ecosystem which targets those objectives.



As discussed in the previous updates, we have been guarded in our underwriting given the challenging environment and reduced focus on generalized credit. We had two non-balance sheet product introductions in the channel this quarter and we have seen strong adoption rates from our channel. Our cumulative activation rate stood at 14% in the quarter with June having the highest ever unique active partners in a month. Of the 238 partners active in June, only ~10% of this were for on-balance sheet unsecured credit, while ~90% bulk of the activation came from our platform products – WealthTech SaaS platform and mortgage partnership. These are early days in the new product journey but we have seen logins almost equally split between the two products. This showcases the potential power of the network that we are building and acceptance of new platform products. As we continue to populate this network with new products, we expect the full effect of network to translate in customer acquisition and revenue scale. This re-affirms our view of empowering our partners with a digital platform play to serve customers.



Platform Users

We are pleased to report that our registered platform user count stands at 19,853, an L-F-L growth of 34% YoY. We acquired 1,301 new users in the quarter. Our retail partner channel build continues and this along with partnerships remains the primary customer acquisition channel for us. Our payments partnerships have been slowed with most parts of India being under lockdown through the quarter. Key highlight for this quarter was the launch of WealthTech SaaS platform and the mortgage partnership. Both these have seen good traction with good early adoption of this platform. We remain focused on scaling these offerings through even as we refine and add more features through this year. Technology led digital enablement of partners continues to resonate well with our partner ecosystem and we see partners and the customer-centricity to be a feature of our execution.

Risk

As highlighted we have been focused on de-risking the balance sheet with strong focus on collections. The lockdown and moratorium have impacted the collections particularly in April and May; however, with some easing of lockdowns we are seeing improved activity month on month basis. Our primary borrower set, the MSMEs, continue to face challenging business environment. We have a firm ear to the ground and are actively engaged with our customers on a regular basis to understand their own business environment. At an aggregate level our collections efficiency has been improving month on month with May being the low point of collections. We see that collection efficiency is better in rural India vs. Urban cities which continue to operate in partial lockdown and/or with heavy restrictions.

Structurally we do believe that credit still remains an attractive long-term opportunity and see ourselves to be more specialised and data centric. As part of the strategic realignment, we intend to bring this specialised focus into our retail channel and push up risk-adjusted returns.

Our total disbursal for Q1FY21 stood at INR 36M vs INR 232M in Q1FY20, down 84% YoY. We expect our approval rate to remain low. These disbursements in Q1 were very selective. Even though the bucket movements remain in freeze given the on-going moratorium we continue to actively evaluate risk and create provisioning to cover the same. Given our shift towards tech-centric model with focus on specialised credit, we continue to actively evaluate risk and create provisioning to cover the same even as buckets remain in freeze.

Technology and Products

These two remain the key for our realigned strategy and they will get more integrated as we move towards more tech centricity and platform delivery. We introduced - a SaaS-based direct treasury platform, wealth analytics stack, and platform for our retail partners to digitise and/or build a new local wealth business. The wealth platform and products of Investdirect, our subsidiary, is being channelised. Q1FY21 was a significant quarter as we launched the SaaS wealth platform in our retail channel. The value proposition of the product is that it allows partners to build and transfer their brick and mortar wealth practice to a fully digital transaction capable platform. Further we executed our mortgages partnership with India's leading private lender and launched the same in our retail channel. Additionally, this quarter we invested in ramping up our construction of the business builder product. This build is part of our endevaour to deliver a digital workspace for small businesses to get them ready for digital world and make their business more efficient. We believe, these product investments allow us to now fully exploit the Niyogin network, platform capability, and expand the addressable market. We have made good progress on wealth analytics platform with marquee client wins. This continues to reinforce our view on solutioning and tech capabilities. We look to accelerate our investments in these areas to further scale these offerings. Our core B2C segment of the platform continues to see good traction with industry-leading statistics of AUM/customer.

Financial Highlights

Overall our P&L performance has been impacted by ECL, and this has got further magnified given the massive disruption we are seeing on economy and livelihoods due to COVID-19 and the on-going lockdown. Even with the COVID-19 specific charge , our operating performance was good and we delivered a positive Non-GAAP PAT.

For Q1FY21, on a standalone basis, we delivered a total income of INR 79M, a growth of 22% YoY. Moneyfront's revenues remain seasonal and with most of this coming in 2H of the fiscal year. Advertising environment remains difficult but we expect our fee income initiatives in the WealthTech platform to drive revenues.

Excluding ESOP charges, we delivered a positive Adj PAT of INR 2.5M in Q1FY21. We stay focused on cost efficiency and our cash operating costs (excluding ECL) remain in check. We have executed and continue to drive several measures to bring in cost efficiencies and create room for growth and investments without further pushing up the cost base substantially.

On-going impact of COVID-19

This pandemic has led to a disruption of economic activity thereby impacting small businesses across the country. RBI has provided relief in the form of a moratorium to the borrowers and we have extended the same to our customers as requested. This has also led to DPD bucket freeze as of February 29, 2020. Given the sharp drop in the economic activity, as a prudent measure, we have taken provisioning related to COVID -19 in Q1FY21.

Most of the ECL charge in Q1 is driven by the on-going impact of the pandemic. This is been led by a sharp cut in GDP estimates for FY21 that reflects in elevated PDs.

Standalone (INR M)	Q1FY2021	Q1FY2020	YoY Change
	(30 June 2020)	*(30 June 2019)*	
Total Income	79.1	65.0	22%
Total Expenses (excl ECL)	66.1	88.0	-25%
ECL	18.8	13.1	44%
Reported Profit/(Loss) (A)	-5.8	-36.1	NM
Depreciation and amortisation	8.3	8.6	-3%
ESOP (B)	8.3	11.4	-27%
Cash Pre-Provisioning Profit	29.7	-3.0	NM
Non-GAAP PAT (C) = (A) + (B)	2.5	-24.7	NM

These are unprecedented times and we are navigating through this with de-risking the balance sheet, actively managing costs and driving tech-centricity with product development and adoption in the market. We believe that this also provides an attractive opportunity to fintech players like us, as small businesses need to formalise and digitise quickly as a traditional offline way of doing business undergoes, perhaps, a structural change. As discussed in the opening remarks, we are executing to a tech-centric business strategy to capture this structural opportunity that this event provides to us. We continue to focus on scaling the distribution network and are re-introducing our guidance for the full-year with new metrics that are relevant and aligned to the business model. Our balance sheet remains strong which 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

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