

Chairman's Update to Investors: Q2 FY2020-21

Even as the COVID-19 pandemic continues, individuals and business have begun to slowly but surely adjust to the new normal. Lockdowns in India have eased and the restrictions are slowing lifting, however the accelerated trend towards digitisation continued unabated. We continue to make investments and align our business and strategy to capitalise on this opportunity. We had highlighted that we are devoting a lot of management time and resource to capture this opportunity and as you have seen through our exchange filings we have had two major announcements 1) Announcement of our acquisition of iServeU- rural payments and inclusion platform and 2) Appointment of our new CEO, Mr. Tashwinder Singh.

Tashwinder, comes with more than 26 years of leadership experience with both strategic and operational roles and has been associated with Citibank , KKR and O3 capital. Tashwinder's depth of leadership experience and relationships lay a strong foundation for us to execute and build stature in a large and rapidly growing Indian fintech opportunity.

We continue to execute on our digital platform first strategy and balance sheet light strategy. This is run across three segments – payments, wealth and business services with a credit offering supported by platform usage and transaction data. This quarter, we have expanded our market access in deep rural India and added payments product stack with the announcement of iServeU acquisition. We have made good progress in the quarter with both SaaS based wealth offering seeing good early adoption trends as well as the new B2B treasury platform for small businesses. The adoption of SaaS wealth platform in the retail channel continues to reflect the demand and rapid shift towards a fully digital delivery model from physical operating models. Additionally, we began the pilot of a digital commerce engine which allows small business to create a digital workspace to run their businesses digitally.

De-risking of our current loan book has remained the key priority for the company. With easing of restrictions and return of economic activity, our collection efficiency continues to see improvement quarter on quarter. We maintain our focus on cost control which provides us flex to navigate this challenging environment. On balance sheet, we have remained very watchful and have not been putting on risk which is reflected in muted disbursements for the quarter. In summary, we have made steady progress on risk management, expanding into payments in rural segment with our iServeU acquisition, and adding talent with a new leader at the helm to drive business.

Key Highlights – Q2FY21

- Retail partner base of 3,241, growth of 18.5% QoQ
- 508 retail partners added
- Activation at 24% for the quarter - Non-credit activation remains high.
- Registered platform customer base of 21,313, a L-F-L growth of 35% YoY
- Wealth AUM of INR 8,255mn, up 31% YoY
- Loan Book of INR 1,126 mn, up 57% YoY

We ended the quarter with a registered platform user base of 21,313 and our retail partner network expanded to 3,241. On credit, we ended 2QFY21 with a loan book of INR 1,126mn and a disbursal of INR 16mn. The disbursements are inline with our revised strategy to de-focus on generalized unsecured credit and de-risking our existing exposure. Our WealthTech business continues to see good traction both on direct to customer and B2B. We ended the quarter with wealth AUM of INR 8,255mn, growth of 31% YoY despite continued market volatility.

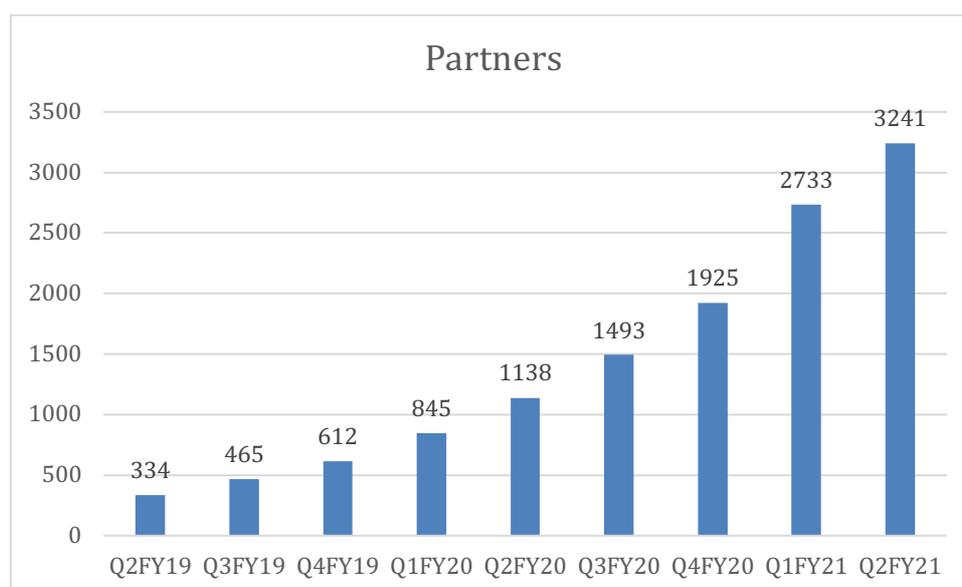
	Q2FY20A	Q2FY21A
Retail Partners	1,138	3,241
Platform Users (L-F-L)*	15,801	21,313
Activation Rate	27%	24%
Wealth AUM	INR 6,316 mn	INR 8,255 mn
Platform Solutions	1	4

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

Partners

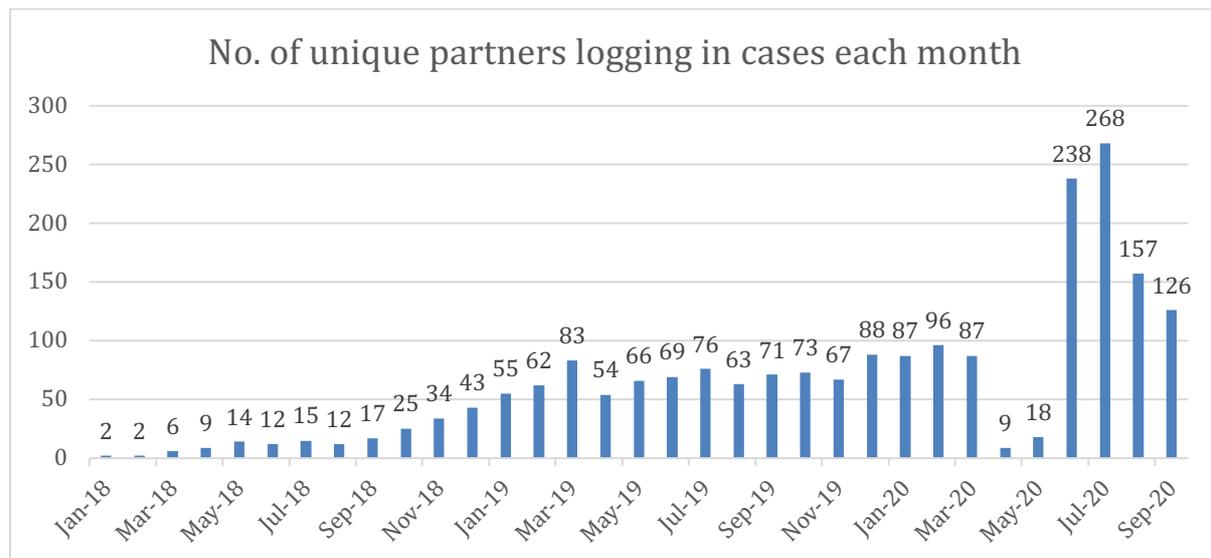
Our partner network expansion continues as we added 508 partners. We ended the quarter with 3,241 partners vs 1,138 in 2QFY20, up ~3x YoY. As outlined in the strategy above, we have begun to leverage this channel for our non-balance sheet centric products. The partner network continues to engage with us on non-balance sheet centric and our core focus remains on adding new product partners to expand our offerings to bring in more fee centric revenues.

We are focused on expanding our product stack on the platform to leverage the full potential of this distribution network. The secured volume generation from our partner network was strong and we are working with our mortgage partners to improve TATs. Further we are in process of adding new mortgage players to help our partners straddle across the rate & risk curve. The wealth business platform adoption remains strong with now over 30% of our partners having adopted the platform.



We have been guarded in our underwriting given the challenging environment and sourcing of on balance sheet unsecured generalized credit remains on pause. Our cumulative activation rate stood at 24% in the quarter vs. 14% in Q1FY21. Activation remains dominated by our platform

products – WealthTech SaaS platform and mortgage partnership. With nearly no contribution from on balance sheet credit, our activation rates are above the previous year trends. 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.

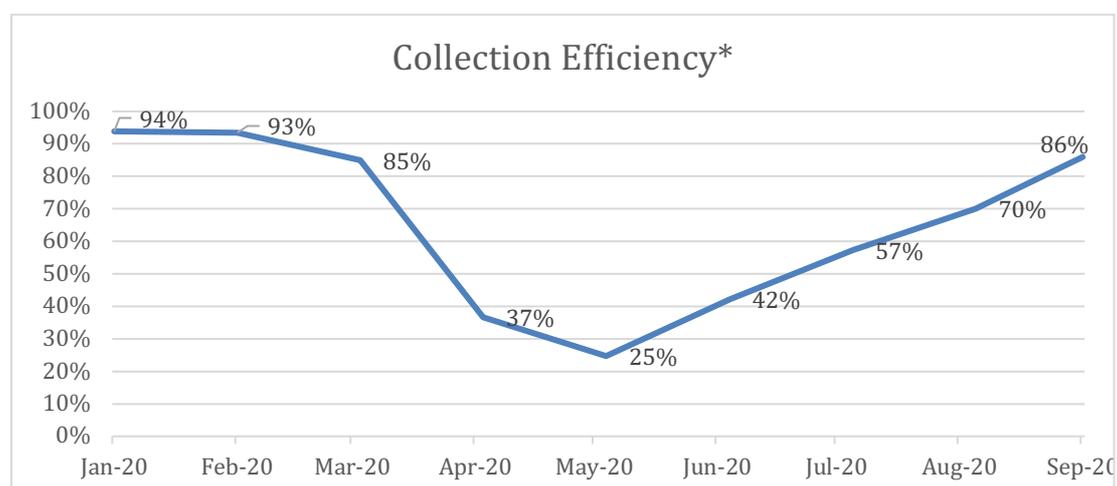


Platform Users

We are pleased to report that our registered platform user count stands at 21,313, an L-F-L growth of 35% YoY. We acquired 1,460 new users in the quarter. Our retail partner channel build continues and this along with partnerships remains the primary customer acquisition channel for us. Key highlight for this quarter was continued momentum on the WealthTech SaaS platform on our network. We continue to see strong traction with 30%+ partners formally on the platform. We remain focused on scaling these offerings through even as we refine and add more features through this year.

Risk

As highlighted we have been focused on de-risking the balance sheet with strong focus on collections. Both the lockdown and moratorium have eased through Q2 and into Q3 and we have seen consistent improvement in our collection efficiency through this period. Even as economy begins to recover gradually, business conditions for our primary borrower set, the MSMEs, remains challenging. Our collection efficiency* has improved through the past quarter. Our approach to restructuring is selective, with evaluation of impact of the pandemic on borrower's business and his capability to service the restructured loan.



Note: * Current bucket efficiency for EMI Unsecured loan book

Our reported GNPA stood at 5.3% (Sep 20 on standstill given the NPA classification directive by Honorable Supreme Court). However, on a pro-forma basis this would have been higher by 1.0%. We have been prudent in our provisioning and in our view, these should adequately cover our credit losses.

Our total disbursement for Q2FY21 stood at INR 16 mn vs INR 243 mn in Q2FY20. These disbursements in Q2 were very selective.

Technology and Products

As part of our strategy we continue to make progresses to a more tightly coupled tech and product ecosystem. In Q1 we had 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. This product proposition continues to resonate well and within 5 months of launch of this has now penetrated almost 30%+ of our partner base. Our next steps are to bring in more digital platform delivery tools, that can driver greater customer and partner engagement. This quarter we completed the construction of the business builder product (beta). This product is now in the pilot phase and we will be able to provide a more detailed adoption update at the end of Q3. Our first enterprise wealth analytics customer went live in October and this product continues to see strong demand. Further the acquisition of iServeU gives us access to both an attractive market segment as well as brings in payments tech capability. There are various product synergies across the platform – credit, wealth and payments.

Financial Highlights

For Q2FY21, on a standalone basis, we delivered a total income of INR 75 mn, a growth of 21% YoY. Moneyfront's revenues improved with new business lines beginning to show up in revenues, as the wealth business delivered a revenue of INR 3.9 mn.

This pandemic has led to a disruption of economic activity thereby impacting small businesses across the country. This translates into elevated credit costs for our lending business and the total ECL charge for the quarter stood at INR 9.8 mn, down 48% QoQ. We continue to monitor our asset quality trends closely and we believe our provisioning remains adequate to cover our loss content.

Excluding ESOP charges, we delivered a positive Adj PAT of INR 7.6 mn in Q2FY21 and INR 10.1 mn for 1HFY21. We stay focused on cost efficiency and our cash operating costs (excluding ECL) remain in check. We have executed several measures to bring in cost efficiencies. These create room for growth and investments without pushing up the cost base substantially.

Standalone (INR mn)	Q2FY2021	Q2FY2020	YoY Change
	(30 Sep 2020)	(30 Sep 2019)	
Total Income	74.7	61.9	21%
Total Expenses (excl ECL)	64.4	89.5	-28%
ECL	9.8	29.2	-66%
Reported Profit/(Loss) (A)	0.5	-56.8	NM
Depreciation and amortisation	8.1	8.7	-7%
ESOP (B)	7.1	12.5	-43%
Cash Pre-Provisioning Profit	25.5	-6.5	NM
Non-GAAP PAT (C) = (A) + (B)	7.6	-44.3	NM

Our approach to navigate this external environment has been to actively de-risk the balance sheet and invest aggressively towards digitisation opportunity across the MSME and rural ecosystem. From an execution maker standpoint, this is revealed in our collection efficiency, the recent announcement of iServeU transaction and appointment of Tashwinder as the CEO. These reflect our continued investments in the digital space as well as the talent leadership for organisation building. Our guidance for the full-year with new metrics that are relevant and aligned to the business model remains unchanged. The 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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