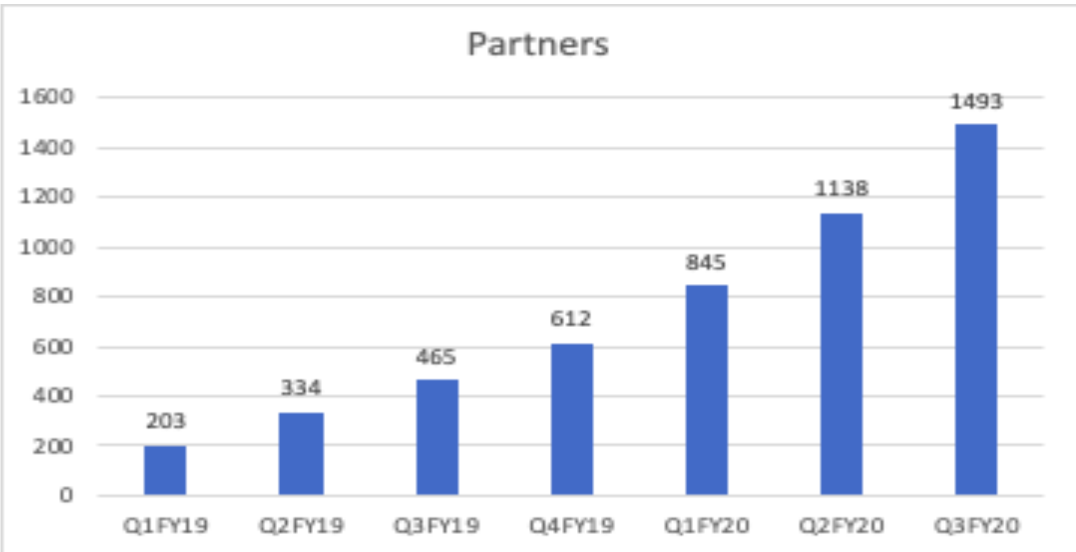
Chairman's Update to Investors: Q3-2020

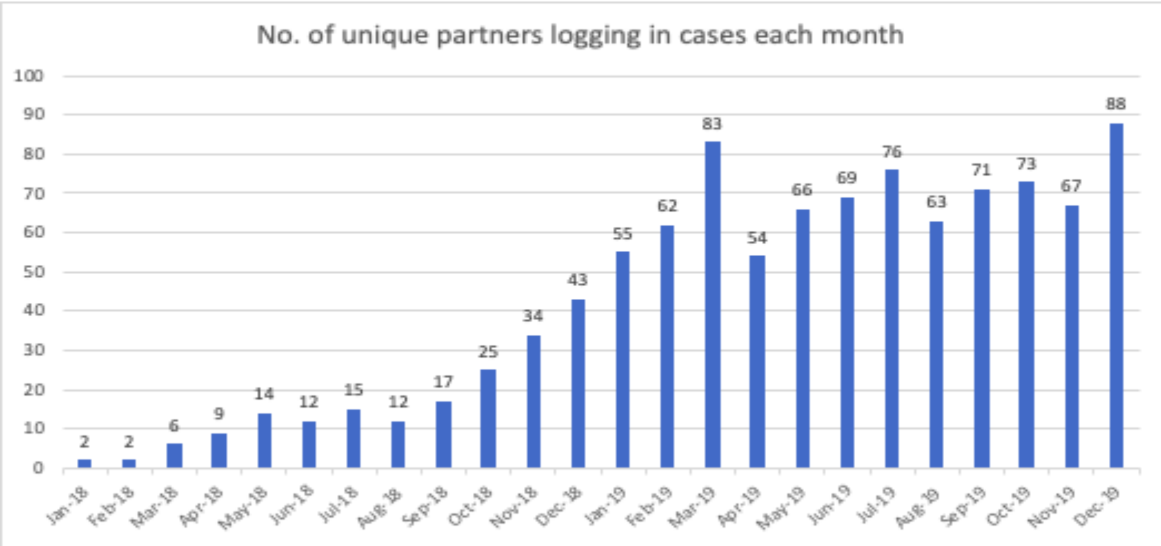
Q3FY20 was an execution focused quarter as we accelerated our distribution build, disbursement and new products. We ended the quarter with a total platform customer base of 15,652 and our retail partner network expanded to 1,493. On credit, we ended Q3FY20 with a loan book of INR 1,561M (USD 22M) and a disbursal of INR 1,071M (USD15M). We are excited to report that in our direct wealth business we crossed the USD 100M AUM milestone this quarter. We ended the quarter with wealth AUM of INR 7,643 M (USD 107 M), growth of 21% 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

Our partner network expansion gained further momentum this quarter as we added 355 partners - highest ever addition in a single quarter. We ended the quarter with 1,493 partners vs 1,138 in Q2FY20, up 31% QoQ. As we had highlighted in our previous update, our focus is on building deeper penetration in each location and we have been appending these geographies with on ground sales team. This coupled with our more focused event based offline marketing initiatives that allow us to engage with our potential partners directly has led to an increased pace of partner addition. This is not only allowing us to build deeper partner coverage, accelerate on-boarding, build brand recognition but also optimise our cost of partner acquisition. We remain focused on taking our partner base to 1800 partners this year – in line with our full-year guidance. The microsite program continues to see good traction and we have grown our partner mircrosties by 27% QoQ to 190+. We continue to see improved attach rates for our microsite program. As our partner base continues to expand, our focus is on improving touch points with the partner and bringing in new non-credit based products for our partner network to drive activation rates.



As discussed in the previous updates, we have been guarded in our underwriting given the challenging macroeconomic environment. In parallel we have tightened our customer selection criteria, induced greater sales discipline to improve the quality of the funnel. This has led to higher upfront rejects in the channel and has impacted our activation rates for the quarter. However we are seeing improved quality of funnel and this is reflecting in better aggregate approval rates. We had another strong quarter of 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 continue to invest in sales effort to get them activated on the platform. Our cumulative activation rate stood at 22% in the quarter with December having the highest ever unique active partners in a month.

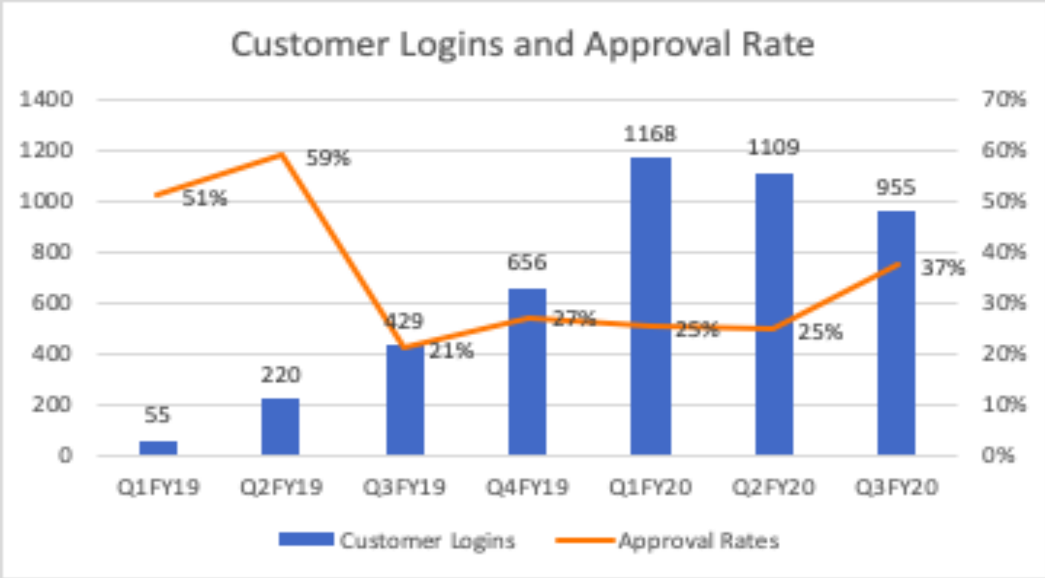


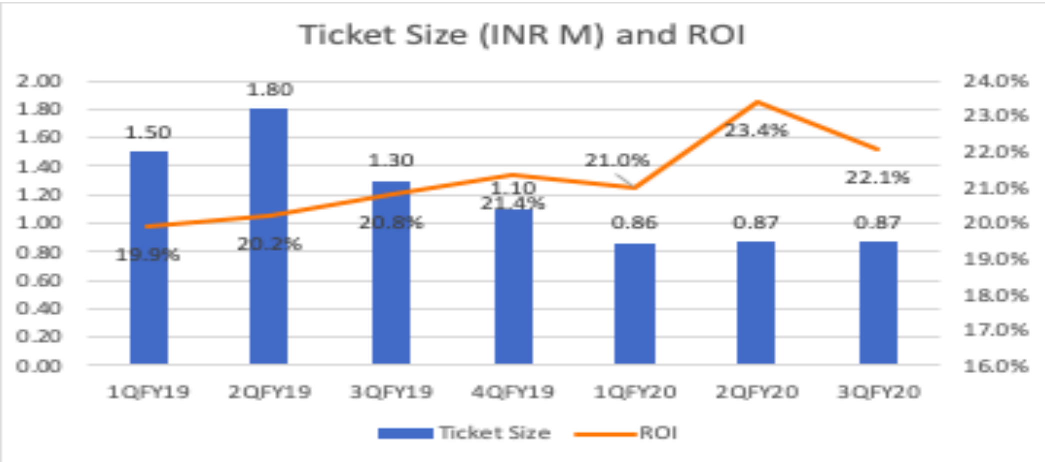
Customers

With the introduction of non-credit based products, we moved to a platform centric customer reporting. We are pleased to report that our platform customer count stands at 15,652, a L-F-L growth of 6.7% QoQ. Outside of capital partnerships, we have acquired 236 new credit customers in the quarter and 753 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. We are happy to report that we have added a new wallet centric partnership that further expands our small retail store reach across India. In addition to our domain-centric partnerships, we introduced new capital partnerships that allows us to scale quickly. We are working with our partners to expand product penetration to solve problems for the segment ranging from short-cycle tech-driven small ticket loans to low ticket NTC centric solutions.

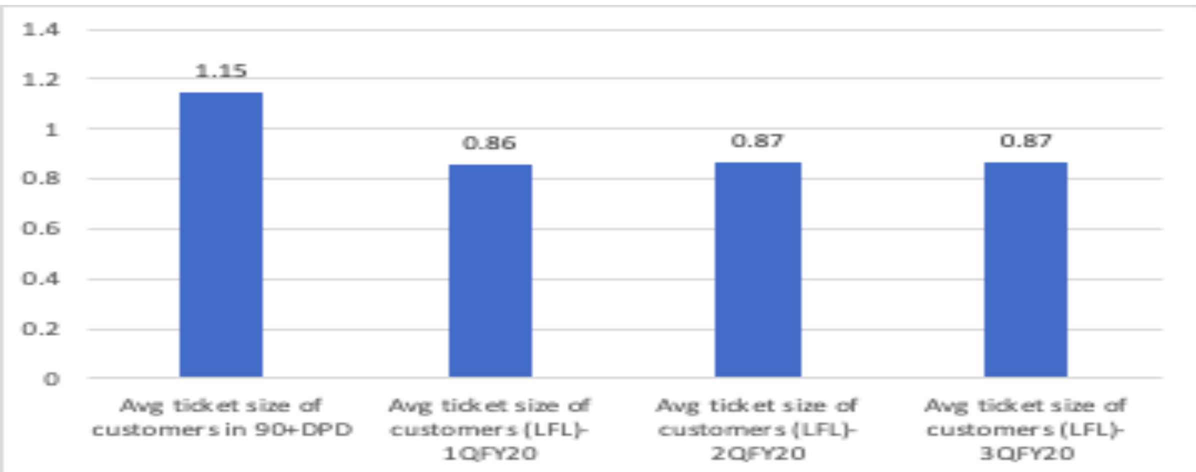
Credit

Our total disbursal for Q3FY20 stood at INR 1,071M vs INR 243M in Q2, up 340% QoQ. Adjusting for our capital partnerships our disbursements grew 35% QoQ. The approval rates stood at 37% for the quarter driven by better funnel quality and rising share of partnerships. As highlighted earlier we have seen better portfolio performance with small tickets and we continue to focus on keeping our ticket sizes in check. Our like for like ticket size stood at INR0.87M same as the previous quarter.





Our Q3 like for like disbursal yields stood at 22.1% as against 23.4% in Q2, a drop of 130bps QoQ. Our average tenor for the quarter stood at 21 months vs. 23.8 months in Q2. The drop in yields is primarily driven by the mix shifts; however we expect to maintain yields within this range. We continue to invest in enhancing our collections capability as we expand our distribution network and geographical footprint. This is beginning to show positive early signs both in bucket stabilization and recoveries. We have already taken the corrective actions over the past three-quarters visible in our ticket sizes, yields and tenor. Overall our gross NPA ratio stood at 2.93% and the net NPA ratio was 0.72%. We have a judicious provisioning policy in place and our provision coverage is more than adequate.



Partnerships

In the non-retail centric channel our execution focus remains on partnership-based business lines. This strategy gives us low cost access to customer base and transaction-based underwriting. The products in these partnerships are high velocity, high yield but short tenor. We continue to make good progress on ramping up the payment centric partnerships. Tech centric players are choosing to partner with us driven by our technology stack, ability to customise solutions and experience in underwriting in specific domains such as payments. These partnerships are at higher yields given the target market segment. We expanded the scope of our partnership strategy to include new specific capital partnerships within the self-employed segment. We disbursed INR743M under these capital partnerships in Q3FY20 which gave us access to 22K+ customers. We expect the revenue impact of the payment centric as well as capital centric partnerships to be fully reflected in the coming quarter (Q4FY20).

Products

We had an exciting quarter on the product front as we tapped into new areas within credit and non-credit product stack. Through our partnership with some exciting companies, we have introduced one new credit product in the quarter. This allows us to tap into an attractive payments/wallet market where merchants require daily settlement for their digital transactions. In addition, this is helping us get transaction-based data to build non-traditional underwriting. This opportunity gives us access to over 15,000 small merchants that are moving to digital platforms. Our wealth platform continues to see good traction with industry-leading statistics of AUM/customer. We continue to expand the product stack and we introduced an industry first product - a SaaS based direct platform for B2B customers to manage their treasury. This product allows us to digitise and bring in efficiency for small and medium businesses including startups to digitally manage their treasury, get cash flow advisory along with all the advantages of low-cost direct plans. Our initial product feedback is promising and we are pleased to announce that we have already started accruing AUM on this product. Further we plan to take this product into our retail distribution which will allow our partners to take this SaaS offering to their SME customers.

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
Niyogin technology Architecture is now matured and tested for volumes. Architecture was built and tested keeping in mind end to end business workflows and functionality with long term growth vision. Four pillars which were built considering the flexible and nimble architecture framework which has now helped to build robust digital lending organization
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. We continue to make progress on monetisation of our technology platform stack as a service, specifically for emerging financial services companies. Strategic technology partnerships are done in areas of services where we can go to market jointly within the architecture build that's done by Niyogin. Our PaaS based revenue stream is beginning to take shape. 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 is core to Niyogin's foundation philosophy and we continue to take steps 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. In addition to our distribution network we are forging new partnerships that allows us access micro businesses. Our new small retailer settlement product enables merchants readily access capital, is again a step in that direction. NTC remains a large impact area with a massive opportunity and we have begun taking small steps towards building these capabilities. 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. We note that as we have begun building more history with larger cohort; and the models are stabilising and should drive moderation in our ECL over the coming quarters.

The Moneyfront acquisition was completed on 19 August 2019 and has been consolidated for the full-quarter of Q3FY20.

For Q3FY20, on a standalone basis we had disbursals of INR 1,071M, up 3.4x QoQ and a loan book of INR 1,561M, up 1.1x QoQ. Bulk of the disbursements were back ended and thus on a standalone basis, we delivered a total income of INR 67.4M, a growth of 12% YoY and we delivered a customer revenue growth of 25% QoQ accelerating vs. Q2FY20. Contribution from customer revenue continues to grow and stood at 72% vs. 64% in Q2FY20. Moneyfront's major contribution comes from advertising revenues which have seasonality and lumpiness towards 4Q of the fiscal year.

Our cash burn for 3QFY20 was at INR 36M, primarily driven by ECL. The increase in ECL from Q2 to Q3 has been impacted by higher loan book, capital partnerships and lower GDP estimate factor in our statistical ECL models. About 42% of the ECL charge in the quarter is coming from our capital partnerships as per Ind AS requirement. Our entire capital partnership book is current, despite which, we have had to take an INR 23.7M ECL in the quarter.

This has impacted our reported PAT. Our 30+ book on L-F-L basis is more than 90% provisioned basis the ECL methodology.

Overall adoption of ECL has caused P&L volatility in 9MFY20 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 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 focused on cost efficiency and our cash operating costs (excluding ECL) remained in check and grew 4% QoQ. We had highlighted that growth trajectory should improve in 2HFY20 and our core customer revenue growth has accelerated in this quarter. Further we expect continued customer revenue growth in Q4 and this should open up significant room for operating leverage through FY21.

Standalone (INR M)	**Q3FY2020** *(31Dec 2019)*	**Q3FY2019** *(31 Dec2018)*	**YoY Change**
Total Income	67.4	60.0	12%
Total Expenses (excl ECL)	88.8	89.5	-1%
ECL	56.2	0.8	NM
Reported Profit/(Loss)	-77.7	-30.2	NM
Depreciation and amortization	8.7	8.2	6%
ESOP	9.1	16.3	-44%
Cash Profit/(Loss) *	-36.2	-5.7	NM

Note : * Ex ECL on capital partnerships for Q3FY20 as the loans are standard

Standalone (INR M)	9MFY2020 *(31 Dec 2019)*	9MFY2019 *(31 Dec 2018)*	YoY Change
Total Income	194.3	166.4	17%
Total Expenses (excl ECL)	266.3	210.8	26%
ECL	98.5	0.3	NM
Reported Profit/(Loss)	-170.5	-44.6	NM
Depreciation and amortization	25.9	22.3	16%
ESOP	33.0	21.5	53%
Cash Profit/(Loss) *	-87.9	-0.8	NM

Note: * Ex ECL on capital partnerships for 9MFY20 as the loans are standard

Business Outlook
We are readjusting our business outlook for FY20 to reflect our execution thus far and our guarded underwriting trends. We maintain our guidance for partners addition, adjust the credit customer count, and raise our disbursal guidance to INR 1,800M+ for FY20. Our expanding network, product introductions and accelerating partnerships give us confidence of strong exit rates for FY20.

	FY19A	Q1FY20A	Q2FY20A	Q3FY20A	FY20E
Partners	612	845	1138	1493	1800
Customers*	434	606	822	1058	1300+
Approvals/ Disbursals	INR 615M+ (USD8.8M)	INR 232M (USD 3.4M)	INR 243M (USD 3.45M)	INR 1,071M (USD 15M)	INR 1800M+ (USD25M)
Partnerships	4	5	6	6	7
Solutions beyond Credit	1	1	1	2	3

*Note: * Credit customers. FY19- based on average USDINR=69.99. FY20E based on USD/INR = 71.35 as on 31 Dec 2019 closing rates.*

In summary, our distribution build is accelerating with a focus on building a platform dedicated to solving for MSMEs. The external environment remains tough particularly for MSMEs, and we continue with our prudent underwriting approach. We are excited about our new partnerships and execution on the wealth business that allows us to build on the platform strategy. We are on track for executing our key strategic priorities - a 3X expansion of our distribution network, new products and scaling our partnerships. 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

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