Qudian Inc.
First Quarter 2018 Earnings Conference Call
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Executives
Min Luo, Founder, Chairman, Chief Executive Officer
Carl Yeung, Chief Financial Officer
Sissi Zhu, Director of Capital Markets

Analysts

Charles Zhou, Credit Suisse
Daphne Poon, Citi
Richard Xu, Morgan Stanley
Jinjin Qian, Needham & Company
Linda Sun-Mattison, Bernstein
Phil Yao, CICC
Liyang Lu, L-Squared Management

Presentation

Sissi Zhu: Hello, everyone, and welcome to the first quarter 2018 earnings conference call for Qudian Inc. The Company's results were issued via newswire services earlier today and are posted online. You can download the earnings press release and sign up for the Company's distribution list by visiting the IR section of our website at ir.qudian.com.

Mr. Min Luo, our Founder, Chairman and Chief Executive Officer, and Mr. Carl Yeung, our Chief Financial Officer, will start the call with their prepared remarks.

Before we continue, please note that today's discussion will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in the Company's prospectus as filed with the U.S. Securities and Exchange Commission. The Company does not assume any obligation to update any forward-looking statements except as required under applicable law.

Please also note that Qudian's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Qudian's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

We also posted a slide presentation on our IR website providing details on our results in the quarter. We will reference those results in our prepared remarks, but will not refer to specific slides during our discussion.

I will now turn the call over to our CEO, Min Luo. Please go ahead.

Min Luo: Thank you, Sissi. We delivered solid results to start the year, and I am very pleased with how our team navigated the evolving Chinese fintech industry during the quarter. We experienced an industry-wide credit downturn in the consumer credit markets following the regulatory changes implemented late last year, and we swiftly took proactive steps to manage our risk by temporarily tightening our credit standards. Those proactive steps impacted our transaction count in the quarter, but we successfully derisked our book and experienced only a small increase in delinquency rates, which we expect to be temporary.

Despite fewer transactions and a smaller number of credit draw-downs, our total loan book grew in the first quarter. With controlled risk, we chose to optimize credit terms and credit size to our high-quality users. The increase of credit terms actually made our product more affordable by reducing the required monthly repayment due from users.

Our strategic decision to tighten credit of riskier borrowers, while offering high-quality users broader options, is further evidence of the value of our robust data analytics, as we utilize our efficient platform to connect funding sources with qualified borrowers.

As the quarter progressed, we saw improving delinquency trends, and following Chinese New Year, we began to embrace the robust consumer credit demand. While we continue to closely monitor delinquency trends, all signs currently point to a resumption of stable consumer credit growth.

Our core business is on solid footing, and I'm excited to share some details about Dabai Auto and the vehicle leasing volume we are driving on that side of our business.

Since November of 2017, we have opened over 175 self-owned Dabai Auto showrooms across the nation, and have quickly established ourselves as a significant player in China's automotive retail market. Capitalizing on our in-depth knowledge of our key demographic, China's young generation, we have had great success positioning Dabai Auto as the first car financing solution for young people. Providing access to affordable cars in a comfortable shopping environment and serving qualified, but underserved borrowers with a convenient financing solution has been an obvious point of differentiation for us in the market.

We have also worked to differentiate ourselves from other auto sellers by providing quick delivery of the consumers' desired vehicle. Our current average delivery occurs in about 15 days versus an average of over 60 days for some of our competitors. We can do that efficiently, without huge investments in inventory, by using our vast data and proprietary analytics to better predict consumer preferences and manage our inventory accordingly.

In addition, we recently entered into an agreement with a large OEM in China, which is key to securing a cost-effective supply of vehicles. This agreement is an endorsement from an established industry player of how far we have gone over a short time. We anticipate learning from this established Chinese auto industry veteran in key areas such as branding, marketing and capital management.

At the same time, the OEM will benefit by using Dabai Auto's channels to further penetrate medium and small cities, while leveraging our big data analytic capabilities to better understand those underserved by traditional financing sources in China, especially the youth market, and their car buying needs and challenges. We are very excited about this cooperative agreement and the real synergies it will unleash.

Strong OEM relationships and continuous improvement in operational efficiency will help us minimize delivery time, enhance revenue per staff, and create a strong competitive advantage to other providers.

At the end of the first quarter, Dabai had leased over 6,600 vehicles since November, and today we have exceeded 10,000 leased and delivered vehicles. Historically, retail car sales are slower in the first half of the year and pick up in the second half, so we have focused on optimizing current operating efficiency and exploring opportunities in the first half of the year, becoming well positioned for the busy season.

We have solid momentum in our business and all signs point to an improving consumer credit market in China. We are well positioned to leverage our over 65 million registered users, deep data analytics expertise and growing foothold in the Chinese auto market to continue to grow our business in the quarters and years to come.

With that, I will now turn the call over to our CFO, Carl Yeung, who will discuss our key operating metrics and financial results.

Carl Yeung: Thank you, Min, and hello, everyone. First, I'd like to touch base on a couple of highlights for the quarter. We delivered solid results in the quarter with our number of registered users reaching 65.3 million, and our number of users who have been approved for credit reaching 27.5 million, nearly double the number of users approved for credit as of March 31, 2017.

Additionally, the data collected from the credit downturn period provided significant enhancement to our data analytic capabilities, giving us further ability to distinguish high-quality borrowers from low-quality ones. This allowed us to start offering slightly larger ticket size and credit terms to our high-quality users, witnessed by average credit size increasing to RMB1,400 and average credit term increasing to 5.1 months in the first quarter of 2018.

The increase of credit terms actually reduced the average amount of monthly repayment due from our users, making our product more affordable. For example, the average amount of monthly repayment in the first quarter of 2018 would be about RMB300, based on the average ticket size of RMB1,400, the average duration of 5.1 months and 36% APR, down from the average amount of monthly repayment in 2017 of about RMB400, based on the average ticket size of RMB960, and the duration of 2.5 months over a 36% APR.

Our proactive management of market-driven risk was swift and effective, as we witnessed delinquency rates stabilize and then fall. The risk level was appropriate again by the end of the first quarter to have the loan book grow. Our loan book actually increased from RMB11.2 billion at the end of 2017, to RMB12.9 billion at the end of March 2018, and now has reached RMB14.6 billion today.

Overall, the steps we took to derisk our book of business positions us well as the consumption credit market stabilizes and transaction volume growth resumes. We are also well positioned to continue the growth of Dabai by leveraging our large customer base, proprietary data analytics and strategic collaboration with established OEMs to serve China's new car market.

We continue to closely monitor credit trends and leverage our proprietary data to manage risk while cost-effectively making credit accessible to creditworthy but underserved consumers in China.

Now, I'd like to walk you through the detailed financial results in the first quarter of 2018. Total revenue for the quarter increased by 106% to RMB1.7 billion from RMB835 million in the prior year period, primarily due to the increase in revenues from sales-type leases as a result of the ramp-up of our Dabai Auto business.

Financing income totaled RMB777 million for the quarter, increasing 12% from RMB697 million for the first quarter of 2017. Loan facilitation income and others increased to RMB278 million for the quarter, up 661% from the prior year period, as a result of the substantial increase of off-balance sheet transaction volumes, as well as the required adoption of new accounting treatment.

Sales commission fees increased to RMB111 million for the quarter, an 11% increase from the same period a year ago.

Revenue from sales-type leases was RMB546 million, representing revenue generation in the first full quarter since we launched Dabai Auto.

Total operating cost and expenses increased by 366% to RMB1.4 billion for the quarter, from RMB299 million for the first quarter of 2017.

Cost of revenues increased by 461% to RMB686 million for the quarter, up from RMB122 million for the first quarter of 2017, primarily due to cost of sales-type leases incurred by the Dabai Auto business.

Sales and marketing expenses increased by 127% to RMB123 million for the quarter from RMB54 million for the first quarter of 2017. This increase was primarily due to higher compensation and travel expenses associated with the Dabai Auto business in the first quarter of 2018, compared with the first quarter of 2017. Excluding costs related to Dabai, sales and marketing expenses actually declined 11% year-over-year primarily due to a significant increase of transactions directly on our own apps.

General and administrative expenses increased by 36% to RMB56 million for the quarter, from RMB41 million for the first quarter of 2017. The increase was primarily attributable to the increase in administrative fees payable to trust companies as a result of increased use of trust funding in the first quarter of 2018, compared with the same quarter of 2017.

Research and development expenses increased by 74% to RMB44 million for the quarter from RMB25 million for the first quarter of 2017. This increase was primarily due to an increase in technology service expenses.

A provision for loan principal, financing service fee receivables and other receivables increased by 779% to RMB444 million for the quarter, up from RMB51 million for the first quarter of 2017. This increase was primarily due to an increase in the M1+ overdue loan principals and financing services fees receivables, which we intend to provide sufficient allowance to cover.

We have cumulatively provided RMB806 million allowances for principal and financing service fee receivables, more than covering the actual M1+ overdue loan balance. Our M1+ delinquency by vintage for the new credit transactions facilitated in 2017 stayed less than 1.7% as of March 31, 2018.

Income from operations for the quarter was RMB326 million, representing a 42% decrease from RMB558 million during the same period last year.

Income tax expense totaled RMB9 million for first quarter of 2018, down 91% from RMB92 million for the first quarter of 2017, primarily due to the deferred tax treatment and increased tax refund.

Net income totaled RMB316 million for the quarter, down 32% from RMB465 million for the first quarter of 2017. Net income attributable to the Company's shareholders per diluted share was RMB0.95, compared with RMB1.53 in the prior year period.

Adjusted net income attributable to the Company's shareholders, which excludes share-based compensation expenses, decreased by 30% to RMB338 million from RMB486 million in the prior year period. Adjusted net income attributable to the Company's shareholders per diluted share decreased to RMB1.02 from RMB1.60 in the same period last year.

As of March 31, 2018, the Company had cash and cash equivalents of RMB5.7 billion, compared with RMB6.8 billion as of December 31, 2017. The Company also had restricted cash of RMB538 million, compared with RMB2,253 million as of December 31, 2017. Restricted cash actually is mainly representing the cash in consolidated trusts that can only be used to fund credit draw-downs or settle these trust obligations.

As of March 31, 2018, the Company had short-term amounts due from related parties of RMB517 million, compared with short-term amounts due from related parties of RMB551 million as of December 31, 2017. Such amounts include RMB512 million and RMB549 million deposited in our Alipay accounts as of March 31, 2018 and December 31, 2017, respectively. Such amount is unrestricted as to withdrawal and use, and readily available to the Company on demand.

Net cash provided by operating activities for the first quarter of 2018 was RMB488 million.

Looking forward, for the full year 2018, we are reiterating and reaffirming our prior guidance, and continue to expect adjusted net income to be more than RMB2.5 billion and the number of vehicles leased to be more than 100,000 units.

Now, this outlook is based on the current market conditions and reflects the Company's preliminary estimates of regulatory, market and operating conditions, as well as customer demand, which are subject to change.

With that, this concludes our prepared remarks. We will now open the call to questions. Operator, please go ahead.

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English.

The first question comes from Charles Zhou, Credit Suisse.

Charles Zhou: (Speaking Chinese). My first question is we also note that the accumulative car lease by your Dabai Auto is over 6,000. We also note that your sales and marketing expense is more than -- it's around RMB70 million. You also talked about your full year target of 100,000 number of cars. So it seems to me that you are still a little bit far away from your full year target. So when should we expect the number of cars to pick up? So this is my first question.

My second question is also we note some of the companies used the financial guarantee, like they own the financial guarantee company. And they use (inaudible) and also, they have a financial guarantee license, and they use this as part of the credit enhancement. So may I ask, Qudian, do you also consider to buy maybe a financial guarantee license going forward? If yes or no, I also ask your reasons as well.

And my third question is I know that provisional expenses increased a lot in the first quarter of 2018. So was this attributable to the high delinquency ratio for loans in the fourth quarter last year? As delinquency ratio already stabilized, so how is your trend for the provision? Thank you.

Carl Yeung: Hello, Charles, this is Carl, and thank you very much for the questions. I'll answer directly in English. First of all, regarding Dabai, as we all know, the auto leasing business is a complex and long value chain. We have just launched this for a few months.

For the quarter, we are learning a lot about how to lease cars in a complex nationwide environment. So we have done a lot of work in the first quarter to optimize the workflow, conversion rates and delivery times. Specifically, you have seen a significant improvement in our delivery times to now just under 16 days, compared with when we started - well over 20-something days. So there is a lot of optimization going on.

Secondly, the Chinese auto segment does see seasonality. Typically, the first half of the year tends to be slower, and then the second half of the year tends to be more robust in terms of demand and sales. So we do expect the second half is where really the volume should pick up.

Right now, we're still looking at a 100,000 vehicle target. We are not moving away from that because we believe we have the confidence of doing that, because we believe out of the 26 million-plus people with credit limits, the majority of them do not draw down on the very small credit size and they have some sort of auto need. So from a probability perspective, 100,000 units out of 26 million is not unachievable as long as we get the details right. So that's where we are.

The RMB70 million sales and marketing expenses that you back-calculated from our sales and marketing is really mostly initial setup fees, our staff flying around to different cities, setting up these stores. So it would just be very stable. We haven't actually deployed so-called mass marketing to push volumes yet. And if we have to, if we need to, we can deploy those options to reach these targets. As of right now, we still actually expect Dabai Auto to breakeven, if not actually generate a sizable profit for 2018.

Secondly, regarding the guarantee, thank you for observing that. We are in the process of applying for our own guarantor license from CBRC. That timetable is currently uncertain, but we hope to get that in the next couple of months. At the same time, we already have signed up various license guarantor companies, as well as insurance companies, to match what Regulation 141 requires. So we are ready to go and we intend to be fully compliant with what Regulation 141 requires.

And then the third question is related to our provision expense in the first quarter of 2018. As you can see, the actual M1+ coverage is 1.01 versus previous quarters, which are usually at 1.3 times. We do not intend to do any conservative or aggressive accounting. This is the way our provision numbers are calculated, based on a growth rate model for various delinquencies that reach into, or that perform into the quarter. And we use these to calculate the expected percentage of loss for loans for credit that is originated in the quarter.

The coverage ratio is lower in this quarter because there is a clear, very clear, recovery of delinquency by February and March, so the delinquency coverage ratio came down. So we believe, generally, the worst has passed as volumes -- as transaction volumes as well as loan volumes continue to grow, as well as the actual delinquency balance grows at a slower rate. We expect going forward, as we discussed in the prepared remarks, we should see a much lower so-called delinquency ratio by vintage.

Charles Zhou: Okay. Thank you.

Operator: Daphne Poon, Citi.

Daphne Poon: First, I actually have a follow-up on the Dabai business. So we note that actually in addition to the 175 self-operated stores, that you have also been recently expanding into the franchise store model. So I'm just wondering how much of the full year, like 100,000 sales target, is expected to be driven by these franchise stores.

And second is on the funding side. We see that from our coverage, it seems the on-balance sheet funding cost has been coming down quite a bit in the first quarter to around 7% from our calculations. So would you be able to comment on the reason behind and your outlook on the funding cost trend going forward?

And lastly is about the change in accounting policy. Just want to clarify, does that only apply to the off-balance sheet part, i.e., the loan facilitation service fee? But for the financing income, is this still recognized on a cash basis instead of on an upfront basis? That's all my questions. Thank you.

Carl Yeung: Thank you, Daphne. This is Carl again. I appreciate the three questions. So on Dabai Auto, beyond the 170 stores, our Company has continued to explore ways to better reach and service our users. So we have signed up with very fragmented, multi-brand single stores around China, mainly in the fourth to fifth-tier cities, to explore a cost-effective way to reach these users. So we are collaborating with some of these stores.

But this is a process, as we discussed before on the call and elsewhere, Dabai is very new to us and selling autos is a very complex value chain. So we will continue to see ways to service these users and explore various methods and optimize this experience. So in regard to how much for the full year 100,000 units will come from our own stores versus some of these so-called service provider partners, we don't have a good estimate yet because there's still the optimization program going on.

For example, a specific location yields a significant demand and cars are hard to deliver, it might make sense for us to not -- to no longer work with these service providers and open our own stores. At the same time, for locations that don't make sense, we may close our own stores, too. So it is a process. But we are confident about the 100,000 units as of today since we have users. It's a matter of picking the right location to service them. So this is where we are on Dabai.

And then secondly on the funding side on the balance sheet, in fact as of today, our external funding cost has remained pretty much similar as last year. So whether they're trust structures or our balance sheet funding from banks or consumer finance companies, the annualized rate of charges is roughly still the same.

The observation you saw regarding the overall decline in the funding costs for on-balance sheet transactions was because we deployed an increased amount of our own cash, as investors behind the trust structures, to better use our basically very large cash balance that is not generating better returns anywhere.

So going forward, we will see pretty much a stable funding environment, with some increase in overall interest rate environment in the market, but the overall so-called funding cost should be stable.

And then finally, the change in accounting policy, or namely ASC606 that we adopted as required by FASB, was applied since January 1, 2018. This only applies to our balance sheet transactions, where we are a facilitator in the transaction. The on-balance sheet component of our revenues still uses the existing -- our previous accounting treatment where the service fees are recognized over the service term of the user.

Daphne Poon: Okay. On the funding side, would you be able to give us a breakdown in terms of how much of the funding is from your own capital, and from off-balance sheet and also from the trust channel as of 1Q?

Carl Yeung: Sure. I think I am happy to share that with the community and market. If you look at -- I will give you the comparison as well. If you look at the loan book outstanding on December 31, 2017, the deployment of owned equity was 26.8%; then institutional funding partners -- that's on-balance sheet – external-wise, was 55%, and then the off-balance sheet institution funding was 18.2%.

If you bring that forward to March 31, the self-funding part was 29.1%, so increased by about 2.3% versus 3 months before that; and then the institutional funding partners external -- that's on-balance sheet -- is 46.3%. Now, that is replaced significantly by the off-balance sheet arrangements from institutional funding partners externally, which increased from 18.2% on December 31 to now, 24.5%. Does that help, Daphne?

Daphne Poon: So in terms of the -- yes, that's very helpful. In terms of the going-forward, the funding mix, you expect the off-balance sheet portion to continue to increase?

Carl Yeung: Yes, we are looking to see that happen because we are seeing increasing demand from licensed banks to participate in what we have to offer.

Daphne Poon: Okay, good. That's helpful. Thank you.

Operator: Richard Xu, Morgan Stanley.

Richard Xu: I have two quick questions. First of all, given the continued increase in registered users, I do notice that the pace of increase has somewhat slowed. At the same time, MAU also probably has moderated somewhat. Just wondering, obviously, the firm has not been spending marketing dollars on the cash business for some time.

Wondering whether given the competition, more and more other firms are competing in the low-rating categories, whether there is a need to actually later on increase the marketing dollar for the cash loan products to maintain an active user base, MAUs and drive a higher growth in the registered user base in the coming years and quarters?

Secondly, I guess on the auto business, given also more entrants in the market whether -- I don't know whether you're seeing more competition in, I guess, some of the targeted cities from some of these other competitors at the moment as well. Thank you very much.

Carl Yeung: Hi, Richard. Thank you for the questions. These are two really good questions. For observing the registered users to actual transaction users, in the first quarter, you would have seen a rather sharp decrease because the Company proactively increased the disapproval rate, or really increased the rejection rate, specifically from December to January to February, to really derisk from refinancing users. And we have done that very successfully, so the results do show that the delinquency has come down.

Now to get back to you on the specific marketing dollar, you actually see the marketing spend in the first quarter, taking Dabai Auto out, actually declined from the same period last year by 11%. The Company's strategy is really never to market our way into users because we serve an interesting product or credit. And if we market to users, you are really asking users to come and borrow.

We would rather stay with these consumption scenarios where the credit is needed in convenient ways at a reasonable cost, affordable cost, and we intend to continue to do that. So we have no intention to step up our marketing dollars to convert more users into borrowers. I think right now, looking at close to 65 million registered users, it’s still a long way to go for us to service the right credit product to them, so that’s kind of where we are.

We still have a lot of things to do. So as you see, we have optimized our credit terms in the first quarter. Although visually on the surface, you’ve seen the ticket size increase and average duration increase, we've actually lowered the per-month repayment for each transaction from approximately 400 to now 300. So we were making things more affordable with other products that didn't make sense. So we think these optimizations of our products and services will continue to drive user engagement or actual transactions going forward.

Regarding Dabai Auto business, there is, and has been, an increased level of competition in this space because as everybody can tell, the demand and the need is there. We do expect to put some marketing dollars behind this effort, really not for generating more sales away from competitors, but really to educate our potential users. The product we serve is actually something that we prefer in terms of a very low-risk model, where these are direct leases. These cars’ titles are owned by our company. And in the Chinese market, not all users prefer that. They would see actually counter-party risk on our company because they would keep repaying, but the cars still belong to us until the very, very last repayment.

We like this because the users are very unlikely to defraud us, but it does take some education. So with the again large user base, the network of auto showrooms still needs to be optimized. We think we are in a very good position to really open this market up. And if there were any sales and marketing dollars to be spent, we would spend it reasonably to really educate potential users only.

Richard Xu: Right. Thanks for the color, Carl, for the answer. Just one follow-up quick question. I totally understand the number of active borrowers as the firm tightened the credit standards. But I'm just wondering whether management is a bit concerned on the average MAU year-on-year decline in the first quarter? Because that wouldn't be impacted by the credit approval decision. So I don't know if there's any specific reason behind that, or management expects a rebound in year-on-year growth in the MAU; I guess the active borrowers will come from?

Carl Yeung: Yes, thank you, Richard. The actual MAU in the first quarter has declined from the fourth quarter by about 30%. That, I think, is really mainly due to the overall ecosystems. The large ecosystems in China have basically sort of tuned down various exposures because of regulatory movements. The demand is there. We don’t question that. The credit need for the under-banked is just so massive. So we hope and we believe that number should rebound somewhat.

But let’s still assume the so-called base case scenario where this MAU sticks and doesn’t grow. Even at that situation, we are still looking at 20-plus million unique users that come and visit our app across our own ecosystem every given month, which still means a very large and sizable opportunity for various credit products. Even out of 20 million, we just served 4 million in the first quarter, so there’s still a lot of things to do.

Richard Xu: Got it. Thank you.

Operator: Jinjin Qian, Needham.

Jinjin Qian: A couple if I may -- one is to follow up on the user base. Obviously, you’ve expanded the size of your loan ticket to about 1,400. And you said you're trying to focus on the high-quality users among your registered user base. Can you help us get a sense of how many of the 65 million or 27 million would you consider to be eligible for this larger ticket size?

And in terms of your future customer acquisition strategy, are we going to move towards a higher tier of customers, a little different from what we've been focused before, or you're going to be still targeting the same user base, but some will be eligible for the smaller ticket size; and then as they grow, you expand to the larger ticket size? So on a high level, has the strategy kind of changed, given all the industry change? So that’s one question on the consumer credit.

The second is on the auto business. Can you help us understand on the inventory side, what is the typical inventory and turnover you are seeing? How many vehicles do you have in your inventory right now? And how much capital would you expect to be needed to reach your 100,000 target this year? Thank you.

Carl Yeung: All right. Thank you; thank you very much, Jinjin. And I'd like to help the community to understand the size of loan tickets. I think we’ve mentioned just briefly that actually, although you see the loan ticket average size increase to 1,400 with a term of 5.1 month, the actual per month repayment has been lowered to about 300 versus 400 last year.

One of the things we have done behind this effort was we actually got rid of all the so-called weekly products, where a user will come and borrow on a bullet term this week and then repay next week. What we have found through the credit cycle, credit downturn, was this type of product was more associated, correlated, closer to refinancing users than anything. So we got rid of that product. And when that product is gone, when you don’t have a lot of user borrowing on a weekly basis for RMB300, RMB400 a week, the average does go up.

Secondly, because most players have stronger balance sheets in the first quarter -- well, most players who are responsible -- they have stronger balance sheets in the first quarter. We have seen a group of users with very high-quality data and so-called expected low delinquency to come through to our platform. And for those users, with the strengthen of our data analytics, we believe we can serve them with a higher ticket size.

But as of this moment, we do not still serve any users over RMB10,000. That's kind of where our cap limit is. And for those RMB10,000 credit limits, the terms are usually 12 months, which actually still makes that transaction per month a small credit size of less than 1,000 per month. So that's kind of where we want to stay at.

So overall, we continue to want to focus on the really under-served, under-access to credit users, who's making RMB3,000 to RMB5,000 a month, where our advantage is just superior to other competitors. So we don't have intention to venture into unsecured credit lending, into, say, the 50,000, 100,000 category. So that's kind of where we are.

Secondly, in terms of Dabai Auto, as of March 31, we actually have an inventory balance of slightly over 2,800 cars. And as of right now, we have about 5,700 cars in inventory. We believe this is a kind of right level of inventory to get the growth where we want it to be. We actually carry out a smarter inventory logic in Dabai Auto. Number one, we don't do a single brand product. It's all multi-brands, so we ensure the vehicles that we want to carry in inventory are hot selling models. But for the long-tail demand, we try to pick them out of dealer distributors, where they have problems, and have a slow-moving inventory, too. So we combined the two together, we actually have a fairly flexible inventory model where we can get inventory at a lower cost, at a faster pace and we can sell it nationwide.

In terms of the capital required to get to, say, 100,000 cars this year, it should be somewhere around RMB4 billion to RMB5 billion, where we would finance roughly 50,000 units of cars. And then the remaining 50,000 out of that 100,000 units, we'll find external ways to finance such.

Jinjin Qian: Thank you, Carl.

Operator: Linda Sun-Mattison, Bernstein.

Linda Sun-Mattison: I have a question regarding general cash flow industry environment. The government, the tightening from December, there was a timetable about cleaning up the [credit] industry by end of April, I think. Can you give us just general idea where the players are? Have you heard of any players been expanding or shrinking? I just want to get a sense how this is developing and whether we've seen the last of regulatory tightening?

And following on that, I'm looking at your slide 8. In Q1, a lot of questions were centered around we've seen big decline. I think probably the very straightforward question is when are we going to see this rebound? You said there is enough demand, but how, when, we see these come to your financial numbers and your KPIs? Thank you.

Carl Yeung: Thank you very much, Linda. The first question, I'm not in a position to predict what government will do. I don't think anybody in the world can, but I can comment on the actions taken. We can offer our view in terms of what these actions mean. So first of all, there were a lot of regulations issued throughout last year actually, and then Regulation 141 came on December 1.

The government all-in-all has really never put a so-called stop-all approach to this industry, but rather offered guidelines in how you should run the business to serve these under-served credit needs. There were timetables attached to some of these regulations. The April one you mentioned was more towards P2P registration process, at which the government has actually moved the deadline back without giving a further deadline timetable.

I think through the conversations we have with industry participants as well as associations, we have – we believe the government also knows that the companies who do not charge exorbitant rates, who do not go out and hurt users and are actually doing the industry a good, right? Because if we are gone, if other players are gone, the demand is still there.

Where does this demand go? They basically go offline to loan sharks and ultimately, people get hurt. So as long as this industry operates with their own reasonable – and if we provide affordable credit, the government knows that this is an okay thing to do. So you have seen the move-back of P2P deadlines. You have seen some of these deadlines regarding confirmation of various licenses, small loan license for example, has really not been enforced or deadlines moved back.

So overall, I think the environment from a regulatory perspective is more relaxed, and it gives the quality players much more room to service the credit demand.

Secondly, on the second question, we are seeing substantial rebound. If you were to look at our first quarter, -- I can't give you the detailed numbers -- but the rough average loan balance all the way from throughout January and February, and all the way through most of March, was around RMB11 billion. The RMB12 billion loan balance you saw at the very, very end of March was really just an increase in the very last week or two of March. As I just mentioned, our current loan balance is RMB14.6 billion, but the delinquency rate has actually come down.

So everything you've seen in terms of decline in transaction volume, declines in loan balance, increases in the delinquency rates by vintage were actually basically all reversed in the next quarter or so. So it's very, very clear to us where our rebound was. That's why we had the confidence to really reaffirm the RMB2.5 billion of net income that we hope to do this throughout the full year.

Linda Sun-Mattison: Yes. Carl, can I just ask a quick follow-on question? You're still regulated -- are you still regulated under the central finance department with the license issued by the local finance department? And currently, can you just clarify the kind of license situation? Is there any update basically to what we've heard from you during the Q4 briefing?

Carl Yeung: Okay, sure, I can help. So our Company is really a true fintech company. There is a tech component of it and there is a fin component of it. Now, the tech component of it is nothing more than an internet platform with apps and data analytics and machines and connections with various financial institutions. That part carries an ICP license, which we have.

Now, we do also provide loans to our borrowers on our own equity. That part has to go through licensed financial institutions. For every loan that goes out our door, it is our Company policy, it has to go through a licensed financial institution. Now, we also have a license -- or actually, we have two; we have two internet micro-lending licenses. And we still have those; they are under review by the "Jinrongban," or local financial office under the CBRC. As to the outcome of that, nobody knows yet, but our business is operating as usual.

In fact, in the 20-F that we submitted a month or so back, we have not been operating those two entities since December. And our business has not been interrupted, because we work with all licensed financial institutions, so basically, we've been a facilitator for the transaction, so really not much has changed.

Linda Sun-Mattison: Thank you, Carl.

Operator: Phil Yao, CICC.

Phil Yao: (Speaking Chinese). Congratulations on our strong results. I have two questions. Firstly, we believe Dabai Auto sales will keep increasing, as we have the capability for channel, capital, customer base and operation. However, are we already prepared for the alternative funding for this to support the increasing Dabai Auto sales?

And secondly, what's the APR on average for our cash loans company, and what number should we project in the mid and long-term? Thank you.

Carl Yeung:

So first of all, thank you for the two questions, and I'll answer directly in English and appreciate the comments. First of all, regarding all the financing, so the financing support to grow this business is strategically intended to be driven by our own capital first and then we will seek external funding. But we're not waiting for that full scale of external funding to be finished and then go out to get funding.

In fact, in the first quarter, two major external funding partners, one is a bank, one is a licensed asset management company, a very large-scale one, has already stepped in to provide partial funding to some of these other transactions. So they are ready to go when that volume picks up. So basically, the infrastructure for funding is already set up and are ready to deploy.

We have full confidence in bringing in more funding partners because this -- if you look at our portfolio of autos right now, we leased off 6,600 vehicles in the first quarter with zero M1+ delinquency. And if you bring that number forward to now, over 10,000 vehicles leased, we have 5 M1+. This is an extremely high-performing asset.

Plus we are bringing some very interesting fintech elements to this portfolio for our active buyers. In the traditional days, you buy an asset portfolio, you would just buy an asset portfolio. These days, for example, when you do this asset portfolio with us, we actually provide you a platform, a tech platform, behind where you can track individually how many miles the car has driven, what location it is at, because each vehicle is equipped with multiple telemetrics. So that's where our funding is, so we already have people stepping in -- and that process already been started.

Regarding cash loan pricing, I believe the average actual APR in the first quarter is somewhere around 31% effectively. We don't intend to bring this pricing down because we don't see any competitors that can do this size of a transaction at near these rates right now in the market. In fact, we have full confidence we'll actually be looking at a full 36% APR across all the products, except for Auto.

Now factually, if you look at the per-month financing service fee for the interest on a monthly basis, 36% versus, say, 30% versus, say, 24%, the absolute difference in terms of RMB, because each ticket is still very small on a monthly basis, it's roughly a few RMB differences. So there is really no actual impact that would drive -- or that would enhance or deteriorate user demand by changing pricing. So we have full pricing power. We intend to keep 36%.

Phil Yao: Thank you.

Operator: Liyang Lu, L-Squared Management.

Liyang Lu: I just have two questions. One is regarding the active users. I know you just quoted numbers. I was wondering how many -- what percent of users are actually new users, whether we can disclose that?

Carl Yeung: Hi, Liyang, thanks for asking that question. So out of the disclosed active users in the first quarter, roughly 500,000 in that quarter were new users.

Liyang Lu: Okay. So on the other point you mentioned about --

Carl Yeung: Out of 4.1 million, 500,000 were new users.

Liyang Lu: Okay. Got it. And the other question is really about you talked about the reverse, substantial rebound across all the metrics. Just wondering whether we can have some ballpark numbers on the April numbers. And where do you see the (inaudible) balance sheet compound coming from the new users, or just like more repeaters or like higher ASPs?

Carl Yeung: Okay. Thanks for that question. I won't mention specifically April, but you saw the loan balance at the end of March at 12 -- at just roughly, slightly over RMB12 billion. But that full quarter in the first quarter is really generated -- that net income is generated roughly around RMB11 billion loan balance. From RMB12 billion by exiting March, we've been maintaining around RMB14 billion throughout April to now, May; and right now sitting on RMB14.6 billion. So the rebound is very, very large; it's substantial. And we believe that the financial impact should be quite significant as we go into Q2.

The confidence to really grow that is really we observe very closely minute changes in the market, as well as the observed actual delinquency rates. The delinquency rates were impacted by an effective risk management program that we implemented since December last year. Our delinquency rates have come down. So we are confident to grow that loan volume.

Now the loan book, what's driving that loan book growth is really, you won't see a substantial increase in the active borrowers because we've gotten rid of a lot of the financing -- repeat financing users. So our product is now exposing more and more to more new high-quality borrowers. As a lot of platforms exit, and we can pick and choose which people to serve. So you would see, as we venture into time, a slight increase in the overall ticket size, as well as the duration as you've seen in the first quarter.

Liyang Lu: Just one last housekeeping question. Regarding the share buyback, any update on the progress of it?

Carl Yeung: Well, the board did announce $300 million. We do not disclose specifically how much we have bought back. We have bought back -- we are not like other companies where they announce something and they didn’t move. We have bought back a large chunk of that throughout last year. Right now, because there is substantial demand for our business services, as well as new ventures, such as Dabai Auto, we intend to use that capital in driving business growth, rather than just buying shares in the market.

Liyang Lu: Okay. Thank you.

Operator: As there are no further questions now, I'd like to turn the call back over to the Company for closing remarks.

Sissi Zhu: Thank you once again for joining us today. If you have further questions, please feel free to contact Qudian's Investor Relations Department using the contact information provided on our website.

Operator: This concludes this conference call. You may now disconnect your line. Thank you.