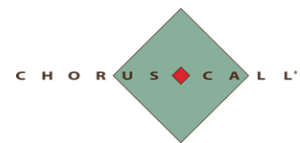




“Muthoot Capital Services Limited
Q2 FY '25 Earnings Conference Call”

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MODERATOR: **MS. SHWETA DAPTARDAR – ELARA SECURITIES
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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '25 Earnings Muthoot Capital Services Limited Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Daptardar from Elara Securities Private Limited. Thank you, and over to you, ma'am.

Shweta Daptardar: [Technical Difficulty 0:0:50] Capital Services Limited. From the team of management we have today, Mr. Mathews Markose, CEO; Mr. Ramandeep Gill, CFO. We express our gratitude towards the management of Muthoot Capital to provide us the opportunity to host this conference call.

Without further ado, I now hand over the call to Mr. Ramandeep Gill, CFO, for his opening remarks, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Ramandeep Gill: Thank you, Shweta. Very good morning to all of you. Yesterday, we had our audit committee and the results were successfully adopted in the Board. I'll just provide you the glimpse of the results first, and then we can have a Q&A session. So with this, in this quarter, we did INR643 crores of additional sourcing, whereas we can increase that this would be the highest quarter, right, and maintaining a rate of 75, 25 towards MCSL and towards coal lending.

Therein, in this quarter, we have taken our book to INR2,381 crores. Whereas our GNP stands at 4.80 percentage and NNPA stands at 1.62 percentage. The PBT for the quarter stood at INR21.62 crores, whereas CRA stood at 26.93 percentage. If the debt to equity of the company stood at 3.37 times.

The overall balance sheet of the company reached at INR2,848 crores whereas borrowings of the company outstanding is INR2,141 crores. In this quarter, the company had did 1 ARC deal as the guidance has already been shared during our Q1 results that we want to have a balanced approach because we knew that sourcing are going to be big in this quarter. So we want to have an ARC deal.

The ARC deal -- portfolio of the deal was close to INR100 crores, and the entire portfolio belong to the pre-COVID era and so we don't want to impact our AUM much. That is the reason we have decided to do this deal in this quarter itself. So there is -- after doing the deal, we -- if we have gone from quarter-to-quarter, we would have reached at a GNP of 7.2 percentage.

But we know that in order to raise funds from PSUs and everything, we need to have a GNP below 6 percentage and this tool was something wherein we need -- we wanted to take a call. But from March onwards, we wanted to do in Q1, then because of the AUM growth and everything saying that we have taken the challenged approach and took the call in this quarter itself.

By doing a number of INR643 crores of additional sourcing, we acquired 75,854 new customers during this quarter, taking our total customer base to 4,46,998 as of September end. This has taken our shareholders from to INR639.42 crores. The company has been successfully able to maintain the yield at 19.96 percentages. Last year, in Q2, at the same time, we were having -- we were having an AUM of INR1,767 crores. That AUM has been growing -- has been grown to INR2,381 crores now.

Last year, at the same time, the company was only approaching with Unit 2 products mainly 2-wheeler and corporate loans. Now as we speak out of this INR2,381 crores, we had a 2-wheeler share of INR2,173 crores; corporate loan share of INR105 crores. We have added -- we have taken our 4-wheeler portfolio from INR12 crores to INR51 crores now. Our 3-wheeler portfolio was nil. Now it is closer to INR31 crores.

Loyalty loan and total loan has reached to INR11.68 crores. CV was not even introduced, now it is standing at INR8.70 crores. So we are seeing a remarkable diversification of the business as well in this quarter. As I said, after taking the call on the GNPA and NNPA number, the GNP stood at 4.80 percentage and M&P of the company stood at 1.62 percentage.

With this the company has reported an EPS of INR9.71 compared to INR6.57 in Q1, right? And the ROA of the company for the quarter stood at approximately 3 percentage, 2.91 percentage precisely and as compared to 2.23 percentage in the Quarter 1.

Our 27 percentage growth has been recorded in the ROA. 10.31 percentage is the ROA, which has been recorded by us in Q2, whereas in Q1, it was 7.39 percentage thereby recording a growth of 40 percentage in this parameter as well.

The total -- the company has operated throughout last 2 years ago at an average LTV of between 80 percentage to 85 percentage. We maintained that. Last year, at the same time, we were having an own funds of INR590 crores. We are able to take it to INR639.40 crores.

Talking about the loan loss provisions, yes, we did 1 ARC. Plus in terms of recoveries, also, we do have a good -- we have seen good efficiencies in Stage 0, Stage 1 and Stage 2. Stage 3, we have seen a bit of dip, but that has been recovered in the first week of October due to festival in September. And we are sure that we'll be able to improve this in this quarter.

The company has taken a target of INR344 crores to INR400 crores at the time of framing the budget for this financial year, but we have been able to -- successfully be able to do INR643,500 crores because by Q1 itself, we felt that the company will be able to clock approximately INR200 crores to INR250 crores a month, right?

And talking about the retail loans and the MCSL share versus the co-lending share, which was the concern in the Q1 call as well. We maintain that from our dealer channel and the group, we have been able to source 75 percentage as an incremental business in this quarter as compared to the other channels or partnership channels, but we continue to work with partnerships as well, right?

Talking about the source of the collections, the company has been able to increase its clean edge penetration. That was one of the reasons in bringing down my cost of recoveries as well by total collection from NACH and from bank and electronic mode, first time ever it has cost more than INR100 crores in a month, which is quite a significant achievement for us.

Talking about the asset analysis, 78.89 percentage of the book standing at zero bucket. First bucket, we had approximately 4.14% of the book. In second bucket, we are earning 2.76 percentage. Whereas as if we talk about the third bucket, as I said, the GNPA was 4.80 percentage. So that portfolio is standing in the third bucket.

We are talking about product wise, with 2-wheelers, we have almost entire book in standard assets, except 5.24 percentage specifically in the NPAs wherein we have sold 4-wheeler almost entire book, it is a standard asset, excess 0.55 percentage, which is lined as an NPA. 3-wheeler, we are having a zero NPA. In CVs, which we have introduced again 0 NPAs. Loyalty loan and personal loans, we are having an NPA of close to 2 percentage. Corporate loan and others, we are having a zero NPA.

Talking about the partner-wise from dealer and branch combined together, we are having a GNPA of approximately 4.8 percentage. For others when we talk about partnerships such as co-lending, we are having a zero NPA as of now.

The company had four partners for partnership and three partners for we are continuing with it MIC WC, Manba and EV.in for our EV financing enough money. Whereas for BC, we are having our group companies supported by Muthoot Fincorp and Muthoot Automotive. Back-end finance is also our third partners.

Now talking about the ECL portion of the company, the company has adequately provided for the ECLs as compared to the IRAC norm, we can see that INR98.87 crores is the ECL of the company. In all these stages combined together, whereas as per the requirement, we need to maintain INR45.12 crores. Therefore, we are INR53.75 crores higher than what is required as per the IRAC norms.

The company had done the first ARC transaction with Phoenix ARC, wherein the balance of that investment security receipt has been charged was INR102.22 crores. In this September end, we have closed that security refit investment balance at INR46.10 crores, therefore, making a significant recoveries in that ARC portfolios as well.

Talking about ARC 2, which company had done in September, we have done this with Paras ARC with an investments in securities balance of INR41.73 crores. And in September only, we had full recoveries of more than INR3 crores in this field.

Liabilities of the companies you have to talk about promoter group stand strong, and they are having a shareholding of 62.60 percentage. Retail is holding 26.24 percentage. The rest of the shareholdings are holding -- are held by NRI institutions and others.

Talking about the funding position of the company, we have been successfully able to raise INR670 crores during the last quarter. Out of that, almost INR500 crores pertains to long-term funding and INR175 crores pertain to short-term funding.

The additional cost of new facilities, which companies have obtained stood at 9.83 percentage, whereas all working capital demand loan, everything has been rolled over. We have been successfully able to close 1 impact investment also with GuarantCo. GuarantCo is an UN-based fund wherein we have been successfully able to close the transaction with GuarantCo and Axis Bank amounting to INR100 crores.

We had an additional funding from IDFC First Bank also for INR120 crores. Other fundings we have been successfully able to raise from the PSU either in the form of working capital demand on rollover or in the form of NCDs from our partners. The mix is like NCDs stand at INR604 crores, whereas FDs of the company has been increased from INR40 crores to INR42.37 crores.

There is a working capital demand loan, term loan from the bank which are standing at INR1,100 crores. CTs of the company standing at INR200 crores whereas PTCs and DS portfolio of the company stood at INR189 crores, mostly towards PTCs because DA we had only 1 deal of INR3 crores, which is outstanding.

Talking about the MCLR change, the change in the ROA, we have observed 0.70 percentage increase in the average MCLR, whereas in terms of increasing ROA, it stood at 0.14 percentage. Therein, we have also seen repo rate hikes during this quarter -- not this quarter, in the last 18 months, we have seen hikes happen in May '23, June '23, August 2023, September again, then Q3 ending, then Feb '24.

Considering all this, our borrowing costs, which used to be 9.70 percentage in last September has gone to 9.84 percentage, whereas average MCLR rate, which used to be 8.51 percentage of the banks has gone up -- gone up to 9.21 percentage. So therein we have made a significant achievement by decreasing the spreads, which we are taking from the banks.

In terms of the ALM and the structure liquidity of the company, we have not observed any kind of stress even after providing a [inaudible 0:13:19] of 15 percentage of the outflows and inflows, thereby also maintaining the LCRF for the requirement of RBI, which is 85%. We are maintaining more than that at any point of time. So there is no stress, which we have observed in 1 to 7 days, 8 to 14 days, 15 to 1 month, 1 to 2 months, 2 to 3 months, 3 months to 6 months and 6 months to 12 months.

For liquidity, we know that in this quarter also we want to do INR300 crores a month. Hopefully, we'll be closing the same number in October, though we are right. And we want this sourcing to be somewhere around INR900 crores to INR1,000 crores in this quarter. By maintaining that, we do have our fund position wherein we do have our term sheets and sanction letters on hand. We are expecting to close this quarter at INR260.31 crores of the cash in hand, thereby maintaining the LCR of 85 percentage as described by the RBI.

So that's an overall glimpse from our side in terms of finance number. I would like to give this call to Mathews sir now to take you through the business numbers. Thank you.

Mathews Markose:

Thank you, Raman. Good morning, everyone. Very, very happy to connect with you all once again. Let me start by wishing all of you and your loved ones a very, very Happy Diwali and a very prosperous year ahead. As Raman has already indicated, we had a more than satisfactory or, so to say, a very robust H1. Both Q1 and Q2, we beat our own estimates on all parameters, whether it is disbursement or reduction in NPA, we beat our own estimates and also we beat the guidance that we have given to the investors in our previous earnings call and also to our bankers and other stakeholders.

So as Raman already mentioned, we ended up Q2 -- H1 with INR642 crores of disbursement overall. We have given a guidance in our previous call of about INR600 crores. And we had given a guidance on the GNPA coming down to 6% level by March '25. But we are very happy to say that in H1 itself, we've brought down our GNPA level to 4.8%. And this was supported by very robust growth in our own NPSL business.

So the NPSL business alone did INR420 crores out of this overall INR642 crores. While we continue to work with all our partners, all our partners will continue to do business with us. Our other new lines of businesses, which is commercial vehicles and used car loans are also coming up beautifully month-on-month, we are growing and this will grow further in Q3 because on the 1st of November, that is 2 days from now, we are launching our new LOS, which is going to be the real game changer for this business.

So we are moving our both used car and commercial vehicle businesses to our new LOS. This should see a drastic improvement in business growth, reduction in CAD, much more better quality of sourcing and all that. Two-wheeler business on the whole has been growing steadily for us. Yesterday was Dhanteras which is considered to be very, very auspicious day. We delivered 6,000 vehicles yesterday Pan India. That's a very, very good number, sometime last year, we used to do that number in the whole of 1 month. And yesterday alone on one day, we did grow that number, which augurs very, very well for the company.

Our VP model with our group company, Muthoot FinCorp is coming up very, very well. We are now about 25% of our overall business. And Muthoot FinCorp in this year so far has already done whatever they did in the whole of last year. So they've already registered 100% growth, and we expect a 200% growth from that channel alone.

The NPA levels on the portfolio sourced by them is only 0.15%, which also augurs well for us. The other BC partners with Muthoot Automotive and Deccan, all of them are coming very well without any delinquency on the portfolio. And the growth is also close to 60%, 70% on these 2 partnerships as well.

All our co-lending partners have grown with us. The co-lending partners have added an AUM of INR280 crores in H1. Our liability side of the book has also seen slight growth. We added our liability book by about 1,200 customers in H1.

Our collection efficiency has improved significantly. We are at -- on the X bucket, zero bucket, we are at 98% efficiency, which is up 2% over 96%, which we are maintaining in the last year. Even in Bucket X, we have -- because Bucket 1, we've improved from 78% to 82%. So all buckets on collection, we are seeing efficiency as well as a reduction in overall cost.

As CFO already mentioned, electronic mode of collection has come up to about 67% of our overall portfolio. What is noteworthy is also that our digital payment on the new acquisition has come up to 75% now, which used to be about 50% in June and about 45% last year. So today, we collect 75% of the incremental business through eNACH mode, which will further reduce our collection costs in the months to come.

We've taken a lot of digital initiatives, including bringing a new CRM solution, lead management solution. We had already tied up with a few ecosystem partners like BikeDehko, Bajaj Finserv. We have added to that list PhonePe. We have also revamped our own website from which we are getting leads. All these leads will culminate now into the lead management platform and where we will be able to manage those leads much more efficiently. The dispositions can be captured much more efficiently. The tracking of the year end-to-end can be done much more efficiently.

Along with that, our usage of the Muthoot FinCorp ONE app, which is our app for all our customers, acceptance or the absorption of that has improved. We now have about 50,000 downloads on that app.

And the usage on that app has also significantly improved. About 4% of our overall collection is now coming through that app, and we are making further developments on that app to increase their absorption level much more. We are creating a self-service journey on our website as well as on the app for customers to take new products of ours, which means today, if a customer wishes to take a loyalty loan, which is a loan, which we give to a customer who has paid us well on the 2-wheeler loan. He can just get into our website or on to the app and complete the journey on his own.

So that is a development, which we will be launching sometime in November, which will again boost our ability to go digital and to increase volumes there. We are starting the cross-selling business. So still now we have focused on only on our business, but now that, that part has stabilized, our productivity levels have gone above 13 numbers on the 2-wheeler side. We are now looking at increasing the cross-sell and on the fees. So what we did was we did run a propensity model on our existing 2-wheeler base.

And we saw that there's a INR2,000 crores of housing loan and LAP outstanding on for our 2-wheeler customers from outside of Muthoot ecosystem. So we tied up with our group companies, which is Muthoot Housing Finance for cross-selling or housing loan on LAP. So we have got into an arrangement with them. We created that propensity model where our customers are -- 6,000 of our customers who have shown high propensity to take housing loan and LAP, and we will be passing on those deals to our housing loan company, and we get a fee income upon conversion. So that arrangement has been approved by our Board.

As Raman was mentioning, over the last 1 year, that is September-to-September, we grew our AUM by INR640 crores, which was about 35% growth of the year. So every month, we are growing our AUM by 4% to 5%. And in the next 6 months, we plan to grow our AUM by about INR640-odd crores toward -- our objective is to end the year with about INR3,000 crores on AUM.

So I think overall, the business is robust. Our Q3 happens to be the best season for the industry as a whole. And we've already capitalized on that. I mentioned about the Dhanteras delivery. October, we will end up with about INR300 crores of disbursement and the next 2 months should also be good.

So I think the -- we look at the next 5 months of the year with a lot of expectations, lot of hope and I hope we will be able to deliver on all the fronts as we've been able to beat our own expectations and guidance that we've given so far in the year. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Lavanya, an Individual Investor. Please go ahead.

Lavanya: My first question is about the customer acquisition and retention. So with the new customers added in Q2, what are the primary strategy in driving this customer acquisition? Additionally, what initiatives are in place to improve this customer retention and enhance lifetime value? This was my first question.

And the second question is with respect to ROE and ROA trends. Our ROE increased to 10.31% and ROA to 2.9% in Q2. What are the main contributors to this improvement? And do you expect these levels to be sustainable going forward? Thank you.

Mathews Markose: So I will take the first question, and I would request Ramandeep, to take the second question. So on the business model today, as I mentioned, we have 3 broad channels. One is the dealer channel, which every competitor uses. We have a unique channel, which is unique to us, basically, which is the Muthoot FinCorp branches, which has about a strength of 4,000 branches and they do cross-sell of our products.

And the third channel that we recently introduced is the digital channel. So about 75% of the business comes from the dealer channel, about 24% comes from the Muthoot FinCorp market channel or channel and about less than 1% is through the digital channels and new channels that we have added. So there's a different strategy that we employ for all these three channels in the dealerships. We have our executives place and it is based on -- completely based on efficiency level wherever we are more efficient.

Our market share over the last 1 year has jumped up from about 2.5% to about 7.5% in the locations that we operate, which means that we shown much more efficiency and will eaten into the market share of other competitors. On the FinCorp branches, what we do is that all the customers that walk in for a gold loan or some other product of FinCorp we try to do cross-sell. So any we display 2-wheelers and used cars at the branches and the customers who walk in they are offered special schemes and they get converted and that's how we use -- exploit that channel.

And in the digital space, we have tied up with various marketplaces like I mentioned in my opening remarks. We've tied up with [inaudible 26:25], we've tied up with Bajaj Finserv, we tied up with PhonePe and we have a few tie-ups in the pipeline which is BharatMatrimony, LinkedIn, etc whom we are at an advanced level of discussions for a tie-up. All of these platforms will campaign leads to our CRM. And from there, the lead gets disseminated to our frontline sales to go and convert these leads. So that's on the acquisition strategy.

On the retention strategy again as I mentioned, we are developing -- we put in a lot of effort and money and investment in people behind machine learning models. And based on that, we've created propensity model for different products. So today we have a propensity model created for used car, for commercial vehicles and for housing in LAP. So the used car and commercial vehicle are our own in-house products. So based on the propensity model, we are passing on these leads to our front line sales team through the CRM system. And these leads are converted by our frontline sales team.

On the housing and LAPs, this is not our product. We have tied up with our group company, which is Muthoot Housing Finance and these leads get passed on to Muthoot Housing Finance who in turn give us a fee for conversion. So what this effectively does is that as I mentioned before in our own base of 2-wheeler we ourselves are pleasantly surprised to see that there was INR2,000 crores of AUM resting in our 2-wheeler customer base outside of Muthoot ecosystem, which means the customers that we are acquiring as a 2-wheeler have that much more potential because other lenders have given them INR2,000 crores of loans.

So we now as a retention tool we have started our own propensity model wherein we will keep it within our acquisition so that we don't lose it to competition. And we are able to upsell and graduate them to higher products like used car, commercial vehicles, housing loan LAP, etc. So that's our overall strategy on customer acquisition and retention. I hope that answers your question. On the ROA, ROE, I would request Ramandeep is here.

Ramandeep Gill:

Sure. So as far as Q1 and Q2 is concerned we have done an incremental number of approximately INR1,100 crores and in Q3 and Q4 we are expecting to do a number of approximately INR1,600 crores to INR1,800-odd crores which is almost 2.5x of what we are doing. And since it's the investment deals thing for us. So we are expecting it and we are positive about these numbers as well. Second thing talking about this main contributor towards this ROA and ROE.

So there is -- so one thing which is for sure if you see we have also shown in the investor presentation as well. The yield of -- the blended yield of the company is going up. Yes, in the season then we have to pay some special incentives and all. So the yields might get dropped by [inaudible 29:40] assets which we are expecting. But the only thing when your denominator will increase even that dip will not be getting any effect.

Second thing talking about the efficiencies of the company, as I already said, we had some slippages in stage III because of the higher PCR we are providing 75 percentage on the additional NPA. So, with those slippages, which we are expecting to convert on or before September and it got converted into October first week. So that happens sometimes. But this -- if that would

happen there. I was expecting -- honestly, I was expecting ROA of approximately 3.3% to 3.4 percentage, right?

But which is okay. We learn and we try to improve also. So in Q3 and Q4 as well, I am expecting the same number, but considering if our business goes higher, which -- chance of which are extremely high. I am expecting a level of somewhere around 3.5 to 3.8 percentage of ROA for sure boss, right? And I hope this answers.

Moderator: Thank you sir. The next question is from the line of Rajiv Mehta from Yes Securities.

Rajiv Mehta: Hi, good morning. Congratulations on very strong set of numbers. So, I have a few questions. Firstly, on asset quality. So, I think you talked about how your efficiencies of collections have gone up in zero DPD bucket in the first bucket as well. And we can see that in the flow rate are pretty controlled and your NPAs are pretty controlled. But sir, there has been a lot of noise about stress in lower-income households, in urban areas, in rural areas.

MFIs, we can see -- I mean, a lot of enterprises are seeing a lot of pain. Credit cards for lower income, is showing a lot of pain. So, what is -- I mean so do we expect this asset quality trends, which are very strong for us right now to remain strong in H2 also? Or do you think that some of the stress, which is there in the economy, in the lower income segment can still hover in our segment is spend in our product?

Mathews Markose: Okay. So, thank you for the question. So, it could be hubris to say that the external environment is not going to impact us at all. So there would be some slower effect. But I can tell you what are the checks and balances that we are putting in place to ensure that it does not happen. So of course, there is some stress on the MFI space. So far, we have not seen that translate to any stress on our portfolio.

That's number one. Two, our's is a secured business. My average LTV is around 80%, which means 20% equity the customer is putting in from his or her side. Once the customer has paid in -- given 20% equity, then the chances of the customer going delinquent becomes very, very limited unless the customer is an intentional defaulter or a fraud. And that happens to be a very, very, very small percentage of the overall portfolio. That's an occupational hazard, it comes in, how much ever you put in.

But overall, by keeping the LTV levels in check, we are ensuring that some of that gets deferred at the very go. Secondly, the sales team is -- given the target of selecting, we call the cohort as quick mortality, which is first, second and third EMI. The first, second, third EMI has to be essentially collected by the sales team and we monitor that very, very closely. So, our semi non-starter is almost zero. It comes in single digits two cases, five cases six cases and those could be accidental or death cases.

And then the next 2 EMIs also have an efficiency level of about 99% -- 98% to 99%. So we ensure that the flow from there is restricted to a larger extent. We -- even if a customer at some stage, some stage with a secured asset we are -- we always have the option record of reprocessing the asset. And we've put up a team for that as well.

Earlier, we used to be maybe about 2 years back, we were selling off a loss of about 50%. Today, we brought it down to 35%. 30% to 35% is our loss on sale. By which time, we are able to recover quite a bit of the principal amount of the loan, okay?

And the entire process of repo and sale has been revamped now. So we take an online code. We take an offline code. We're tied up with all the used 2-wheeler brokers or dealers in the ecosystem. And we take an offline code from them and take an online code by all players who are online. And then there's a valuation that is so that we are able to sell it off at the best possible value also. So thereby, we are able to reduce the losses.

Another thing that we very, very closely monitor is the registration certificate pending, so RC pending. So that is very, very closely monitored so that we have a check and balance on the number of vehicles that are registered and that is always kept below 2% to 2.5% so that we ensure that the RCs are in place, and there is a check on that as well.

So all these checks and balances we've put in place, which are some of the industry best practices. Therefore, we don't see the lower and middle income stress cascading to our business to a large extent. But as I said, it would be useless to say that nothing is going to happen. As and when we see market scenarios, we will take appropriate steps to reduce it.

Rajiv Mehta:

Sure. But just 2 quick follow-ups on this. So October -- see, September, the numbers are there, but October is just -- October is just getting completed. So in terms of October, has the collections held up as well as what we saw in Q2? So far, we haven't seen any increase in flow or something so far in October?

Ramandeep Gill:

Not at all. So far, we are -- what we do both in business as well as in collection, we have a LMTD, which is last month till date comparison. So that keeps giving us an indication whether we are on the track or not. Of course, business is way ahead because this was season. But on collections also against LMTD, we are ahead so far in the month. So we should end up with a similar numbers or if not more.

Rajiv Mehta:

And sir, what percentage of 2-wheeler customers or 2-wheeler households would have an MFI loan as per the bureau for our customer?

Ramandeep Gill:

Honestly, we have not looked at the MFI component. As I mentioned, we have -- as a part of building the propensity model, we looked at housing, LAP, used car and CV. But we did not look at MFI as such. Maybe that's a data point that we should look at it. It's a good idea. Thank you. We will have a look at it.

Rajiv Mehta:

Sure. Can I just ask one more question, please?

Ramandeep Gill:

Yes.

Rajiv Mehta:

Sure. And sir, on disbursement, I think in the initial commentary, you spoke about second half being much heavier or even better than first half. And I think somewhere the number was spoken

that the business volume can even be INR1,500 crores to INR1,800 crores in H2. Did I hear that right?

Ramandeep Gill:

Okay. So to give you a perspective, we disbursed INR642 crores in Q2. Again, that in October alone, we have disbursed INR300 crores. So 50% of that we've disbursed in 1 month. And the next months are also expected to be big, as I mentioned. Yesterday was Dhanteras. We delivered 6,000 vehicles, which is more than INR50 crores of business in 1 single day. So that used to be my overall volume in Q1 of last year.

So that's the kind of numbers that we have so far seen, and November should be very good because there is a lower effect of the Diwali, Dhanteras and then you have Chhath Puja in UP, Bihar, those parts. So all these actually are very, very emotional festivals for the people there and see the corresponding increase in sales. So November also, we should be looking at similar numbers like in October.

December, it may slightly taper down because of the effect of model change in January and so on and so forth. But we should do more than, I think, INR800 crores to INR900 crores in Q3. Then Q4 doesn't -- is not normally as good as Q3, but it generally is better than Q2. So Q2 was INR640 crores for us. I think should do about INR700-odd crores in Q4 as well. So I think overall, yes, I think about INR1,500 crores should happen in the second half.

Moderator:

The next question is from the line of Rishikesh from RoboCapital.

Rishikesh:

Sir, my question is with respect to the NII. So our NII currently is in INR56 crores to INR58 crores range per quarter. So when can we see NII start growing around in the range of 20%, 30%. And by which quarter can we say it can reach in the range of INR70 crores odd?

Ramandeep Gill:

Okay. So I'll take it? Hi Rishikesh, thank you for your question. So as I said at the start of the call itself, we want to have -- so NII has 2 components for us. One is at what yield we are operating, second what is the cost of funds side. So these are the 2 main factors on which we rely on. So what we have done is first target was to bring our GNPA down. It's not because of fact check that we are having a GNPA because we had an erstwhile book, right?

And we know that recovery can be come from that book. So that is the reason we took a conscious call of going ahead with an ARC. How it will help us now? Whenever we apply for any PSU bank or anything, they have a criteria -- specific criteria that you should have GLP of lower than 5 percentage -- or 6 percentage some banks have. So we wanted to have that criteria to be met.

How it will help us now then all the incremental raisings, which we are planning to do or there are which we are in talks right now. We will be having a lower cost. Like I am expecting INR0.50 to -- down in Q3 only from my incremental cost of funds, right? Second thing is, as I said, in Q2, we do have some special scheme, special incentives as well, which we have paid -- but that is not something which is a trend for the whole year.

So in Q3 and Q4, we'll be operating at a normal lead and/or more than that, right? So these are the 2 sectors where I can see top line is getting increased. I can also see because of the borrowing costs, which is now one of the key factor, right? It will also get dropped in Q3. The effect might start to come from Q4 onwards, right? But yes, the trend can easily be seen in the Q3 only.

Rishikesh Oza: Okay. So would it be fair to say the range around, let's say, around -- from here INR10 crores, INR12 crores jump you can see by Q4?

Ramandeep Gill: INR10 crores, INR12 crores would be slightly higher expectation in Q3. Definitely in Q4, we'll be able to do it. All right one more thing in Q3, which is going to happen that at the end of the Q3 -- now we have to be an LCR of 100 percentage of all the NBFCs. Unlike all the finance companies which used to operate at 60 percentage. NBFC has been advised to keep it 100 percentage.

So therein, we could have some additional funds to park in, right? But yes, from Q4 onwards, the impact can be seen. Half of the impact can be seen in Q3 as well.

Rishikesh Oza: Got it. Also, in our current incremental book quarter-on-quarter around INR200 crores of incremental book, how much of it is by our own franchise MSCL? And how much is from co-lending?

Ramandeep Gill: Okay. So I'll tell you, as far as first of all, boss the incremental was somewhere around INR320-odd crores. The AUM, which we are seeing is after subtracting the ERC component. So if I have to total, I can easily say that approximately INR400-plus crores has come out of INR643 crores of sourcing, which we have done. INR400-plus crores have come from MCSL sites, right? And remaining has come from the partnerships.

Rishikesh Oza: That is in disbursement, right? But in loan book terms we have INR320 crores incremental book quarter-on-quarter. How much of that was MCSL and how much is other co-ending?

Ramandeep Gill: Okay. Sir, following the same trend since entire book in terms of incremental is of 2-wheelers, which has an average time period of 2 years. So I can give that 70% to 75% of the book came from MCSL -- because one round will also happen in the same proportionate box.

Rishikesh Oza: Got it. And our total book basis, would it be same, 70%?

Ramandeep Gill: Yes. So I'll say this from Q1 and Q2, I can easily say that 70% take. But yes, since the effect of the past 2 years wherein we used to operate at 60-50 percentage, we jumped to 60-40 percentage. Now at incremental, we are at 70% rate of our own. So we can say that we -- on the overall book, we can seem to trade at 65 as of now. But yes, by Q4, it would be -- happy we can say that it would be somewhere around 70 to 75 percentage of the overall book.

Rishikesh Oza: Got it. And one last question. On a 2-year basis, could you share what is our target for in terms of loan book, ROEs, ROAs?

Ramandeep Gill: Okay. I will go with like -- first of all, the first 1 year time, right? And what changes are expected. So right now, during most of the call were speaking about 2 wheelers as of now. But as I said at

the start of the call, we have also introduced CV which is clearly a long-term product. We are also increasing our used car as well, right from INR12 crores to INR61 crores in Q2, right?

So we are expecting these book to grow as well heavily from Q3 and Q4 onwards. By next September, I am targeting INR5,000 crores of AUM, right? And I guess by that, the ROE operation, which we are doing as of now, we are considering only 2-wheeler as of now because both books are very, very small to say anything about it, right?

So -- but considering the trend and considering how industry operations do these books, we might get an additional advantage from these books, which I am 100% sure. Second thing is, how these two books will help me in terms of, as compared to the, my existing book, the rate cost of these books are fairly lower than, what we have. So, there are -- there are positives also. Negative, I will not say like that anything is there, but these books operate, say, my 2-wheeler have a blended used of 20%-odd. For used [car LCD 46:15], I might operate it between 17% to 18%

So, therein, we can say that, these two books are very separate. But yes, in AUM growth, my new products will be helping me in contributing. I will be having additional income from them as well. And then going forward, right now, I can easily say that I want to operate at somewhere between 3.5% to 4% in terms of my ROA. But, going forward, the trend can easily be predicted well. From quarter four onwards, once these books will grow and some seasoning can be done, especially for the used cars. I hope I am able to answer, boss.

Analyst: Thank you very much.

Moderator: Thank you. The next question is from the line of Taran Gupta from Elara Capital. Please go ahead.

Taran Gupta: So my first question is, how do you expect your net interest margin to look like in a lower interest rate environment?

Ramandeep Gill: As I said, mills are going to improve based on the fact that last 2 years, 2.5 years, we operated a very high NPA, right? Basis on that, we have also seen that increase in the cost of funds as well. Now we are at par with how an industry according to a PSU would look like and should operate in terms of an NPA side. There in reduction in the borrowing cost is expected, right? Whereas we have also said that we will also be hearing good improvement in our yields as well because our contribution from the own books are increasing now. I'm expecting a fairly good jump in this.

Taran Gupta: And what percentage of the liability is currently linked to [EBLR? 48:09]

Ramandeep Gill: Sorry, what percentage of liability currently to?

Taran Gupta: EBLR.

Ramandeep Gill: So I'll say 50% consists of bank loan right? And I'll just give you the exact percentage here. So, my bank loans and bank funding, out of total INR2,150 crores, we have INR1,100 crores only

from new banks. It's a combination of PSU's and the private banking side. And my INR600-odd crores out of funding, which is roughly about 40% of the book is between NCDs, the MDs and CTs.

So there in these 2 are the major contributions towards my funding. Then we have a portfolio of approximately INR185 crores, which is around 12% to 15% of the total funding. That contributes towards my PTC and BD portfolio.

Taran Gupta:

So my last question, you mentioned that Dhanteras was strong in term of business. So how this year special season demand compared to larger performance, particularly during Dhanteras?

Mathews Markose:

I'll take that question, Raman. The festive season typically in our country starts from Onam in Kerala and then you have Ganesh Chaturthi, then Maharashtra and then we have Dhanteras, Diwali and move on to Christmas. So if you look at August, September, I think Onam comes in Kerala. But this time, Onam was okay. I think it was as far as what was it last year.

But September month as a whole for the industry was bad. (50:17) So, industry was down by about 8% to 9%. (50:23) And it could be attributed to, the Pitru Pakshan Shah happening in north of India. And there were heavy, incessant rains in many parts of the country. There were floods in Gujarat, etc., AP, Telangana, all those places, there were floods.

And therefore, I think that has hit the sentiments. So, September was 9% down. October, so far, the figure is not out. But overall, the way the figures are coming in, October is also slightly lower than the last festive season. Also, the last festive season, one advantage was that you had Durga Puja and Diwali coming in two different months. So Durga puja was in October, Diwali in November.

So, we could take advantage of both these festivities. But this time around, both these festivals came in October. So, Durga Puja was towards the beginning of October and Diwali is tomorrow. So, both of them came into the same month. So, that also needs to be seen, how the overlap of business would have happened because of that. But we await October numbers, final numbers. Seems to be slightly subdued.

However, the positive is that the MCSL has been growing and our market share has been growing. So, so far, we have not seen any impact of the market per se. We were sometime -- we were at around 2%, 2.5% market share, that's at around 7% market share. So even if there is an overall impact, the industry is about INR13 lakh, INR14 lakh per month. So for us to reach our numbers should not be a problem at all. So we are not looking at industry at least for the time being since we are so to say, an outlier there this year. So maybe also because of our lower base of last year, that we'll continue to do.

Taran Gupta:

One more last question. So given the earlier guidance of AUM target of around 28,000 million to 30,000 million and disbursement target around 20,000 million. Are we currently on track to message of this or are you going to surpass it?

- Mathews Markose:** We are on track for that number. Guidance was about INR2,800 crores. We should cross INR3,000 crores God willing.
- Taran Gupta:** Okay. And one last question. So could you please provide an update on any change to the coal lending partnership? If not, are there any plans to establish no tie-up in the near future?
- Mathews Markose:** There will not be any change. We will continue with all these partners. Since our own business is also growing, we cannot add new partners for the time being at least.
- Taran Gupta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rajiv Mehta from Yes Securities. Please go ahead.
- Rajiv Mehta:** So sir, when you speak about 3.5%, 4% ROA, it is on what level of AUM we can achieve that. I mean, INR3,000 crores is the target for March '25 -- and then I'm sure, I think somewhere in the call you also spoke about INR5,000 crores AUM. So when do you -- when do we think that INR5,000 crores AUM can be achieved on an underrated basis. And with that level of AUM, can you explain how is 3.5% ROE possible?
- Ramandeep Gill:** So both high -- so this part now. One, basically, on a conservative basis the INR5,000 crores to happen by Q3 of the next year for sure. Second thing is if you see when we take price of that on what yields they are operating and what is our expectation on the book of INR5,000-odd crores. So there is an increased yield of 1% to 1.5% we expect, right, on that INR5,000-odd crores book, that would be the sole reason in contributing by 3.5% in converting a 3.5% to 4%, right? That is what I'm expecting...
- Rajiv Mehta:** I'm sorry, what will drive the yield improvement? Sorry.
- Ramandeep Gill:** So yield improvement, said, our MCSL business and share has increased a lot significantly. Therefore, our overall blended yield on the book is going up, right. So on a scale of INR5,000 crores, it would be around INR3,500 crores to approximately INR4,000 crores would be on our MCSL book.
- So that is something which is giving momentum on our with this I hope that we are able to maintain these numbers and continue this number. We are expecting both PSUs to set in with a significant lower cost of funds. So, all sectors will become a contributor. Third thing, wherein we told, as our CEO has also explained, on the efficiencies. We are good of what we are maintaining. Yes, there is some improvement, which is not a very significant improvement, we see 0, 1 and 2. Say, something which is on the focus as of now, but still we are way ahead of what we have done in last month.
- We are expecting these numbers to be maintained or not to have any excess flow if ever happens. Good part is that even if that excess flow happens, as I said during the start of the call itself, we do have a provision. We are carrying additional INR58 crores for that as well. So there is a

conservative approach, we have approached. We have -- right now we have applied. Along with that, we know that what sort of and we can operate on if things remain still from here on.

Rajiv Mehta:

No, clear. And then if this is the kind of growth we are expecting, then would there be a requirement of raising capital -- equity capital by the end of next year or in FY '27 early?

Ramandeep Gill:

Right. So right now, sir, we are operating at a leverage of 3.37x, right? We expect to take this leverage to 4x by March, right? We wanted to -- we want to do based on the valuations or other things. So we are getting proposals honestly, right? We have 2 options now. One to have a subject at the start of the year or by Q2 so that we know that by the time our valuations can be rectified, we'll be able to go for an equity tranche, or if we get a good offer or something we can start renting a bit from Q4 to Q1 itself so that we can have some sort of chunk by the end of the Q2. So as to maintain our same leverage below 4.

Rajiv Mehta:

And this -- and just when you talk about this market share gain, right? I mean I think one of the very important statements you made was that in the existing locations at existing dealerships, the market share in 2-wheeler loans of yours has gone up from 2.5%, 3%, maybe a couple of years back to 7%.

Now what has driven this increase in market share? I mean is it slightly me being slightly more assertive on the LTVs or pricing or we're taking some risk? There is some risk calls here. And incrementally, do you see competition coming back and then maybe not allowing us to further gain market share?

Mathews Markose:

Okay. So basically, market shares have been driven by efficiency. So we -- sometime last year, in October, we moved to a new LOS loan origination system. Earlier, we were on a very primitive LOS, which used to be just a workflow kind of a thing where you upload, log in documents, credit would look at each and every file. So we used to have a turnaround time approval to that of about 24 hours, okay?

And when you have an approved a 24 hours, what's the getting stores because there were players who are giving you approvals in half an hour, 15 minutes, etc. So, today with a new LOS and all the BRE rules configured, we have about 40% FTP, which is straight through process, which means that for 40% percent of the cases, I am able to give approvals in 15 minutes, in line with what some of the bigger players do.

Now, to give you a very good example from within our ecosystem, we have our VC partner, which is Muthoot Automotive, which is also a group company. There, we have a first rate of rejection, because it's our group company. So, whatever we don't do, that only goes to competition and we have about 60% market share in that counter.

There, my NPA is zero. Okay. Which essentially means that wherever I am able to turn around or I am able to get the cream, I will have a better portfolio as well. So, efficiency is also linked to the portfolio quality. So, if I am able to give a good tag, I will get the first customer walking in and therefore, it could be the chances of that being a much better customer would be much higher than if I am giving an approval in 24 hours, which means I am only getting the leftover

cases. So, improving efficiency is a constant motive of ours and that is what we constantly work on. So, my aim is to take this 40%, 45% to 70%, 75% of STP and that's what we will do in the next 4 to 5 months for sure.

Rajiv Mehta: So this is good, sir. Thank you so much and best of luck, and I'm sure the numbers improving.

Moderator: Thank you. The next question is from the line of Ankur Kumar from Alpha Technologies. Please go ahead.

Ankur Kumar: Hello, sir. Congrats for a good set of numbers and thank you for taking my question. My first question is on the sales quarter and the credit cost, as in Q2, our credit cost is coming negative. And so what should be our assumption going forward in the second half as well as next year? Even we have some INR50-odd crores extra provisions also. So how should we look at this credit cost impairment number?

Ramandeep Gill: Thanks for the question. First, talking about the ARC sale. When the ARC sale happens, you do the reversals of the entire book from your AUM. Second component you reverse is basically the reverse the impairment component also from the book. That's the sole reason of having minus in that impairment cost.

Second thing, how do we look at? If we talk about at a steady state, as I said in Q1 itself, we are looking at a credit cost of somewhere around 1% to 1.25% on an overall number as of now. Even if we have seen the slippage in past also, it was around 1.75% on a very higher side. We are not seeing that trend. [Samasi 61:40] has also told us early trend of NPA, which is not even 1% of the cases which we have sold in the last one year.

So, therein, I am expecting the credit cost to remain at 1% to 1.25%. Even if that increases, that is the reason I told that we have an excess in that provision, which will help us in meeting our targets.

Ankur Kumar: Got it. So in case it increases, we will have that buffer available.

Ramandeep Gill: Yes. Right now, we don't have any such trend of any increase and we don't have any such indications also.

Ankur Kumar: And my second question is on the growth. Sir, we are talking quite good AUM numbers for next year as well as the INR5,000 crores, which should happen by December. So twofold question on this. Sir, one is on the 2-wheeler industry slowdown. So are we saying it will not have much impact on us. It will continue to grow?

And second is, sir, there is this RBI target of soft indications by RBI that you should not grow that fast at least to the unsecured business. So are we any worry on both these fronts, sir, or on our growth numbers?

Mathews Markose: Okay. So I'll take that question. So this month, we should do -- we will do about INR300 crores, which is about 35,000, 36,000 numbers, okay? The industry is -- about this month, industry

should be about 15 lakh units, okay? So I don't think that 35,000 number I should be worried about the industry thinking per se because may not impact.

If I am a 1 lakh, 1.5 lakh player in the market per month, I should be worried about the industry shrinking. But as of now, I have enough headroom there for growth because there are a lot of smaller NBFCs whose market share and currently being able to capture easily. So as of now, industry shrinking is not a worry for me. When I read the 60,000, 50,000 or say a 1 lakh unit per month number, I will be worried about that.

Two, on the RBI, I think I -- you already had a similar question before, which I said that so far have not seen -- we've not witnessed that micro finance indicates coming as an impediment to 2-wheeler business as yet. And again, I repeat my change that it be great to say that company is going to impact. All the changes in the economy will have some capturing effects on all the businesses there in.

But the check and balances that we are maintaining in terms of there's a secured asset, ILG at around 18%, 20% customer, EMI collected bitterly. All that reduces the residual value, and then we have a much better repo mechanism and the resale mechanism. Sometime next year, maybe we will start used 2-wheeler business also. That's in the plan. Maybe it's slightly premature to announce it now.

But yes, since the question came up, I'm saying, we will have that. In which case, we will have an added advantage where we will be able to maybe have a stock of these vehicles and also sell it at a finance. And therefore, we will further reduce our loss on sale, the current number of 35% to maybe single-digit number because then we will not be auctioning it, but we may be selling it on finance to someone else also.

So those are all the -- when we are -- the entire end-to-end of the supply chain we are catering to. So these are some of the notions, we will keep abreast of the situation in the emerging situation in the market, and we will take action as deemed fit.

Ankur Kumar: Got it, sir. And sir, on the ROE side, you said 3.5 to 3.8 is possible. That would mean a ROE of around 15% for us. Is that right assumption?

Mathews Markose: Yes.

Ankur Kumar: Thank you and all the best.

Moderator: Thank you, sir. Ladies and gentlemen, due to time, that was the last question. I now hand the conference over to management for closing comments.

Mathews Markose: Thank you so much, everyone. It was wonderful talking to all of you and such interesting, and some of the questions are really thought-provoking. You've given us new ideas to go back to the drawing board and implement. Thank you so much. It's always a pleasure connecting with you. And once again, wish you all and your loved ones a very, very happy Diwali and an extremely prosperous year ahead. Thank you.



Muthoot Capital Services Limited
October 30, 2024

Moderator: On behalf of Elara Securities Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.