



“Muthoot Capital Services Limited
Q3 FY '24 Earnings Conference Call”
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MANAGEMENT: **MR. MATHEWS MARKOSE – CHIEF EXECUTIVE
OFFICER – MUTHOOT CAPITAL SERVICES LIMITED
MR. RAMANDEEP GILL – CHIEF FINANCIAL OFFICER –
MUTHOOT CAPITAL SERVICES LIMITED**

MODERATOR: **MS. SHWETA DAPTARDAR – ELARA SECURITIES
PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '24 Earnings Conference Call of Muthoot Capital, 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: Thank you, Muskan. Good morning, everyone. On behalf of Elara Capital, we welcome you all to the Earnings Conference Call of Muthoot Capital to discuss the Q3 FY '24 performance. From the esteemed management team, we have with us today, Mr. Mathews Markose, CEO; Mr. Ramandeep Gill, CFO. Without much further ado, I now hand over the call to Mr. Ramandeep Gill for his opening comments, post which we can open the floor for Q&A. Thank you, and over to you, sir.

Ramandeep Gill: Thanks, Shweta. A very good morning to all of you. We'll start this call wherein I will be explaining what we have done in Q3, how the numbers are looking like as of now, and what we can do in Q4 as well and the quarters to come.

So before that, I'll just take you to what -- in terms of my business volume for Q1, we have done approximately INR200-odd crores in Q1. We started the partnerships aggressively wherein we have done INR330 crores in Q2. In Q3, we have done a very good number of INR479 crores, which has increased my book by INR180 crores approximately as compared to the Q2, despite having a onetime hit of my ARP transaction, which I have done amounting to INR235 crores.

I have been able to take my portfolio to INR1,944 crores as of Q3 end. So there is certain increase of INR180 crores in the overall portfolio of the company. We have taken our balance sheet size to INR2,400 crores, whereas in terms of my PAT, the profitability of the company for the first 9 months stands at INR111 crores, where as far as this quarter is concerned, we were at INR10.26 crores in terms of profit, which is ultimately taking my shareholders' fund to INR601 crores.

The company for the first 9 months has shown a very healthy ROA of 7.70 percentage. And just to -- now talking about the asset quality of the company, we are on the verge of improvement right since Q1, as we have seen in terms of our own recovery. Then we have taken the route of ARC. Then where we are in terms of the own book portfolio asset quality. 98% of the efficiency we have already reached in my 0 bucket cases. And we have been continuously improving in all stages, whether it's stage 1, stage 2, and stage 3.

The overall GNPA of the company, wherein we have started accruing interest also on that, has reached at 10.69%, which is 51% lower than as compared to the year-on-year. And our NNPA is 3.55%, which is again 2% lower than year-on-year. Debt-to-equity ratio of the company is very solid. We are at 2.92x, and with a healthy CRAR of 33.21 percentage. The company has

posted an EPS of INR64.47, with an overall ROE of the company for the first 9 months, 32.74% and ROA of 7.70 percentage. We have already spoken about the GNPA.

Comparing my business numbers for the first 9 months of the last year, if we talk about quarter-on-quarter, we have done INR412 crores in the quarter 3 of the last financial year, whereas in this financial year, we have done INR480 crores approximately, wherein we have been able to post good results in terms of -- also just to add on wherein I will also -- my CEO will take it forward. In terms of employee expenses also, we have done certain increments, appraisals in this quarter. So we have taken the entire hit in our opex also for that. The average LTV of the company remains solid at 81%, specifically, if we talk about the two-wheeler business.

Talking about fund position of the company, as usual, we have seen that right from the last one year or so, we are always at a very healthy in terms of liquidity. That is the reason we can see a very good jump in our CRAR during the year also. In terms of my fund balances, we have closed at INR313 crores and we are expecting to maintain the same level of funding, whereas expecting the business to grow by at least 25% month-on-month as compared to the Q3 numbers on monthly basis.

The performance of the overall borrowing mix of the company, which I will say. First, I will talk about where we are in terms of my shareholding pattern. The promoters are holding 62.62%, which is a very healthy sign. And whereas with retail, we are holding 26.04%. The remaining have been segregated between FII and FPI, NRI, KMP, body corporates, which are holding approximately 6.31 percentage.

In this quarter, we have been able to source an additional facility of INR314 crores, which mainly comprises of taking the securitization group of INR83 crores. Talking about CPs, we have taken INR56 crores at a very good rate. And we have also taken one NCD of INR100 crores and term loans of INR75 crores.

The company has posted -- though there is an increase in MCLR, which we have seen, and specifically, after the circular from the RBI, the company has been able to maintain its borrowing costs at 9.82 percentage. In terms of my rollover, as for all the working capital demand loans which we had from banks, PSU, we have been able to successfully roll over the entire thing and the total amount of rollover stands at INR570 crores from this.

We have also initiated, and during the Q2, we have revised our fixed deposit rates that we have revised lately in the month of October end. From that to itself, we have been able to source INR5 crores as an additional fixed deposit from our state itself. So that is something which we are looking forward to increase, so that overall cost of funding can be brought down.

So in terms of my mix, my total funding comes from the banking, which is approximately 61%. Remaining funding is basically a mixture of my NCDs, my sub debt, my loans, my CP, my PTC and DA. So that's an overall view.

Now I'm talking about the provisioning, where we are in terms of. If you see my presentation, which I have already shared, my provisioning, which we have done through ECL, and what is required by the RBI, we have INR21 crores higher than that. This shows that management still believes that conservatism in terms of asset quality is required. We are having a healthy PCR of 75% as we speak, and we continue to maintain it in the future as well.

In terms of the overall yield, yes, the company has done the co-lending business as well during the quarter, wherein we can see that earlier it used to be 60% of the entire, which has been brought down to 50% now. And 50% is basically our MCSL sourcing. With that, we can see that there is a slight increase in the overall yield of the company, which used to be 16.26%, that has been moved up to 17.52%. We can see a further jump in that in the quarters to come.

So that's it from the finance side. And now I will request my CEO, Mr. Markose sir, to bring the business angle to it. Sir?

Mathews Markose:

Good morning, everyone. Thanks once again. I'm very happy to connect with all of you. So taking forward from where Raman has left. Raman has, I think, adequately explained the status of our finances. I want to talk a bit about the foundational work that we have done. So maybe in Q1 and Q2, we were discussing with you about the changes that we are making and the promise that holds for the future. I think Q3 was a period when we actually delivered on most of the promises.

So let me start with the first promise that we made. One was on the implementation of a new LOS for our core business, which is two-wheeler. So we launched the new LOS in Q3 and it gave us rich dividends. Now we are able to give an end-to-end turnaround time of half-an-hour to 45 minutes to a customer based on availability of the basic documents that are required. So that has actually seen a huge -- made a huge difference in the business. And you can see that our business has steadily grown to INR480 crores. And our market share has also gone up to about 8% in this period due to this implementation.

Now our entire top management team has been hired. So we have our Head of HR, who has joined. We have a Head of Compliance. We have Head of IT. All these positions which were vacant have been filled. So the entire leadership team is in place. Our co-lending partnerships have been increasing. More and more partners we've been able to attract. So today, we work with about 7 partners. Our internal sales team has been made robust. And the productivity, which was very low, 6, 7, has gone up to 12 now. And with the new LOS coming in Q4, we are expecting the productivity per frontline to jump to 15.

So all those foundational works that we did in Q1 and Q2 has actually started delivering results in Q3, and we are extremely bullish. Also, in the last calls, I had mentioned about the new business that we are getting into. So used car business we have started and it has started getting stabilized now. We have started disbursing about INR5 crores to INR7 crores now with the team only in the markets of South, which is we've launched this in Kerala and Karnataka.

And in Q4, we are going pan-India. So the recruitment on the used car team is also in full swing. So we have hired people across North and East also now. So by February, we'll see numbers coming in from across the country on used car. We have just shortlisted our business head for light commercial vehicle business. So by April or Q1 of next year, we will see LCV business also kicking in.

Our Head for Retail Liability is joining on 5th of February. So that is another business which we have talked to you all about in the previous 2 quarters, and that also will start kicking in. While we have started the basic groundwork where we aligned our interest rates with that of other SSDs and NBFCs. So that part has been done. With the leader also coming in, next month onwards we'll start kicking in that business also. So I think we are extremely, extremely bullish for Q4 and the time to come.

Moderator: Thank you very much. The first question is from the line of Yash Aggarwal from JM Financial. Please go ahead.

Yash Aggarwal: So operationally, the numbers seem very weak. There's no pickup in NII, operating profit despite growth in AUM. Even our profit before taxes are down quarter on -- the core profit before taxes are down quarter-on-quarter, year-on-year. Year-on-year, it's halved from INR27 crores to INR13 crores. So despite whatever positive comments that you all have made, when do we see the core operating profit and NII start increasing? Because even the interest income is down quarter-on-quarter despite pickup in disbursements. So what is your comments on that?

Ramandeep Gill: I'll take it, sir. So first of all, if we talk about the Q3 of last year, wherein we had a book of INR2,200 crores. On that, we had earned our 23% yield. Talking about a book of INR1,944 crores, wherein we are having a blended yield of 17%, and wherein the co-lending partnerships, though we have decreased our yield, but one thing is for sure that we had 0 NPA on that partnership, which will give a slight comfort.

Yes, we can easily say about that NII has dropped down. But if we compare our NII with the previous 2 quarters, we are slightly in the range just because of the fact that our book has dropped and we are trying to recover it from each and every quarter, and then the recovery is of 2 modes now. First mode that we have done for the recovery is basically, first, we have slightly -- we have moved out our GNPA portfolio, which was increasing our cost of funds, right? Second thing is, in order to be in the market, we have to show them that from last 18 months whatever portfolio we have done, if you see the GNPA of that portfolio, it is not even 5% as a whole, right?

Third thing, because of the fact that now the asset quality has improved. Now we have taken a step forward that, yes, in these markets wherein we are not facing any GNPA, let's try and expand it. That is the reason we have been able to deliver our results. As I said in my call earlier, sir, that in Q1 and Q2, majority share was from co-lending, which we can see has been dropped down in Q3 and which we'll also see that in quarters to come, it will again drop down.

And then the book will grow, your NII also will grow, plus your GNPA, which has been proven in the market -- because, sir, earlier, I can easily say that, yes, NII has grown. What happened to that, sir? Entire book has become NPA, right, sir, 25% of the NPA was there. I don't want to have a situation in life wherein we should go ahead for NII. Because easily, there are clients, markets are there, wherein we can easily take our unit to 28-odd percent. But no, we don't want -- we want to be very safe. We want, whosoever be our co-lending partner, should be able to take that hit and has the ability to evaluate the client extremely well.

That's what we are doing in MCSL as well. Because for a short run, yes, we can say that in Q3, our operating profits are not up to the mark. But in the long run, it will turn out as an advantage to each and every shareholder because we have already proven the concept of lower NPA in the last 1 year or so. That's what I want to summarize, sir.

Yash Aggarwal:

But sir, with such low yields, with such high cost, we are making 6% ROE, 2%, 2.4% ROA. And last quarter you have said that you are looking at 7% to 8% ROE for next year. So how does that math work out? Could you explain for FY '25? And what is the NII on assets, what is the opex on assets, and credit costs in assets that you're looking for?

Ramandeep Gill:

Sure, sure. What we are doing, as my CEO has said, we are on the verge of expanding now, right, wherein we have already identified markets wherein we'll do our own business. Specifically, if you see the two-wheeler business, wherein from the years we are seeing that the asset time period is only 2 years. That's the reason we have moved to used car. We have also moved to NCDs also, right? Because the asset time period is more than 4, 4.5 years, right, where you are able to take the income for a longer period of time.

Now talking about the last call wherein I had said that ROA, ROE will increase. Sir, yes, 100% it will happen. The blended yields, if you compare from the last 2 quarters between co-lending and MCSL, which has been dropped down to 16-odd percent, has been increased by 1.5% because of our share. If you see, in Q4 itself, we have a target to do somewhere around 70% of the MCSL share, which will again increase your yield by approximately 2%. So that will -- my mathematic says that by this year-end or specifically for Q4, we will be turning an ROA of somewhere around 4%, specifically for...

Yash Aggarwal:

Could you go through the math of 4%?

Ramandeep Gill:

Yes, yes, yes. So sir, in this quarter, we have done a PAT of somewhere around INR11-odd crores, right? I will not say the numbers that what we are expecting for this quarter, but yes, overall volumes, that I want to say that there will be an increase of approximately 25-odd percent in my overall funding, right -- overall sales, sorry. And in that, that overall sale will have a 2% additional yield, right? Because...

Yash Aggarwal:

So 25% sales, you're talking about 25% increase in AUM or NII?

Ramandeep Gill:

AUM.

- Yash Aggarwal:** Okay. So AUM will be INR2,400 crores by March end?
- Ramandeep Gill:** No, sir. I said 25% increase in the sales which we have done in Q3.
- Yash Aggarwal:** So that's what I'm trying to understand, sir, that 25% is increase in disbursement, AUM or NII, that you're talking for?
- Ramandeep Gill:** AUM. Sir, we have done INR480 crores. Okay, I'll explain here. We have done INR480 crores in Q3, right? We are expecting somewhere around INR600 crores in Q4 in terms of my sales volume, right? Now when I will be doing INR480 crores at a yield of 17.26%, right, and I will be doing INR600 crores at a yield of 2% higher than that, right, so there will be automatically shift in increase in my total revenue of the company, whereas expenses will remain the same, right?
- And there are a few additional expenses which we have incurred in this quarter in terms of my implementation of LOS, right? Those expenses will also be out because that has already been implemented and amortized. So in a nutshell, I am expecting a 30%, 35% increase in my profitability as an overall, specifically for Q4.
- Yash Aggarwal:** Okay. And sir, next year what is the investment target? And what is the current monthly rate...
- Mathews Markose:** Raman, I want to just add to that also is the fact that we also incurred an additional cost of INR2 crores plus for our appraisals, which we did. And we did our appraisals late. In fact, our cycle after COVID had become October to October, and we did our appraisals and gave arrears right from April onwards. So that's -- actually while it is an expense, I see it as an investment on the people, because the team is highly motivated and which will give me dividends.
- Also, on the NII, while we appreciate there has been a reduction in NII, that was a constructive step in clearing our book. So had we held on to that book without doing ARP, maybe the accruals would have been higher. But that was a conscious call to clean the book and present much better financials in front of the -- it is a temporary phase. While you can see clearly all the positives in terms of growth in business, that is where it is going to impact the P&L as we move forward. Yes, Raman.
- Yash Aggarwal:** Last 2 questions. Sir, what is the current monthly rate of disbursement? And for next years, what is our disbursement target? Because you are saying INR600 crores, so should we expect INR3,000 crores next year? And what is the current monthly rate of disbursement that we are doing?
- Mathews Markose:** So currently, we are -- so November, we touched almost INR200 crores, INR195 crores. December, of course, because there is a year-end change in date of manufacturing, etcetera, and therefore, the industry dips. So it came down to INR150 crores. But now we are comfortably clocking INR150 crores. And next year onwards, we should be doing INR200 crores plus per month comfortably.

- Yash Aggarwal:** So despite the INR150 crores monthly rate, we are expecting INR600 crores disbursement in the fourth quarter?
- Mathews Markose:** Fourth quarter -- because this month onwards it will increase. This INR150 crores is what we did in December. Now with January, February, March, and anyway there is a peak during the last 2 months, February, and March, we will be able to do INR600 crores for Q4.
- Yash Aggarwal:** All right. That's it from my side, and I hope the numbers which you're guiding for are achieved, because we have been patient this whole time. Best of luck for that.
- Mathews Markose:** Surely. Thank you.
- Moderator:** The next question is from the line of Aditya Shroff from InCred Asset Management.
- Aditya Shroff:** Yes. So I had this question on asset quality side. So what we can see on a Q-o-Q basis, the slippages and recoveries were more or less stable. But what has caused the increase in provisions? Because the provision coverage ratio has also not improved on a sequential basis.
- Ramandeep Gill:** Provision PCR is basically 75%. That was a conscious call that we have already taken in the Q2, which you can also see in the PPT which has been shared in our Q2 results. Earlier, we used to have PCR of somewhere around 88%, right? But since then we have taken a conscious call that, yes, now, I will say, 50%, 60% of the NPA has already been sold out through the ARC route. So we don't need much of that PCR. That's the reason we have taken a conscious call of keeping the PCR at 75%.
- Aditya Shroff:** No, sir, but I just wanted to understand if the slippages haven't increased and the recoveries were also almost similar to that of the last month. And why were the provisions high. So provisions have increased from 2% to 5%? Yes.
- Ramandeep Gill:** So just to add on, sir. So there are 3 stages, sir, stage 1, 2 and 3. When we go to stage 3, there are also doubtful 1, doubtful 2, and 3, right. So provisioning in doubtful 1, though the asset remains at stage 3, right? But when it moves from doubtful 1 to 2 and 2 to 3, the provisioning of that asset will ultimately increase, sir. That's the sole reason. Second thing, just to answer you, sir. Our NPA numbers, precisely for Q2 and for Q3, you will say, more or less the same.
- The entire chunk, which I would also want to say that we have sold only a part of INR235 crores in Q2, right? The remaining is still there, approximately INR160 crores to INR170-odd crores of NPA, which is coming right from my COVID era. That is where we have to take a call. But yes, we have a team. They have already started recovering on it. And we are hopeful that after Q4, we will be taking a call on this, sir.
- Aditya Shroff:** So you are saying that some assets have moved to stage 2 in this quarter, which is why the provisioning was made?
- Ramandeep Gill:** Yes.

Aditya Shroff: And that we are doing good on all the levels, like stage 2 has also improved and stage 3 has also improved?

Ramandeep Gill: Yes. Yes.

Aditya Shroff: If it has improved, then how then more of our assets are moving to stage 2 and we have to make -- so provisioning for basically more than 100% on a Q-o-Q basis.

Ramandeep Gill: 100% on a?

Aditya Shroff: On a Q-o-Q basis, if we look at it. So yes, they are higher by -- so in the last quarter, if you see provisions around INR2.7 crores, in this quarter, it is INR5.5 crores.

Ramandeep Gill: So sir, if you see that, out of that INR5.5 crores, there is a repossession loss, right, wherein we have done repossession, and we have sold those assets. That itself contains approximately INR3 crores, if you drill down this impairment. It is not because of the impairment on the existing assets, it is because of the impairment on the asset which has already become bad for us. And now we have taken a repossession out of it and sold those assets and we have moved those assets out from our book.

Aditya Shroff: Okay. So basically, the recovery is yet to come, you're saying?

Ramandeep Gill: Yes, yes, yes.

Aditya Shroff: Okay. I have another question. So in the last con call, you mentioned that November is generally one of the strongest months for us because of the festive season. And even in that month, we were able to do INR200 crores of disbursement. And now in December itself, we have seen like INR150 crores of disbursements, and now also we are doing INR150 crores. So how are we expecting like INR600 crores of disbursement in Q4? So are there any signs for such improvements? Because even in the last quarter, you had mentioned that we'll be targeting around INR600 crores of disbursement and we were able to do INR480 crores.

Mathews Markose: Yes, I will take that question. So 2 things on that. One is that Q4 happens to be equally good, if not better than Q3, generally in the automobile industry, when numbers pick up in February and March. And there's been a general increase in numbers overall month-on-month in the two-wheeler sales. So that is one. Two, on the new LOS that we implemented, it got implemented towards the middle of November, and it got stabilized only in, say, December, okay?

Now with this LOS stable, as I mentioned in the initial thought that I'm able to give a disbursement ad of half-an-hour to 45 minutes, which is increasing my acceptance across the channel, right, whether it is my own internal channel of MFL branches or to the dealership. So therefore, I'm confident that these numbers can be achieved. The used car business is also picking up, which will add some value to the overall numbers.

So INR600 crores does not seem to be a challenge looking at the way we are growing, plus we are adding our partners also. The co-lending partners are also very bullish. So we had a review with them also last week along with that. All of them have also given us certain commitments for Q4. So based on all these facts, we have given this number to you. Does that answer your question?

Aditya Shroff: Yes. But sir, Ramandeep sir had just mentioned that he is looking to target around 25% growth in AUM by Q4. So that brings us to around INR2,500 crores of AUM. But if we do like INR600 crores of dis...

Ramandeep Gill: Sir, there will be a growth in the sales as compared to the Q3 number. That the reason INR480 crores number has reached to INR600 crores, 25% it is.

Aditya Shroff: 25% increase of the AUM or disbursement?

Ramandeep Gill: On the overall sales of Q3.

Aditya Shroff: Okay. So sales means disbursement?

Ramandeep Gill: Yes, yes. Disbursement.

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

Rajiv Mehta: So sir, MD sir ended his commentary by saying that he is extremely bullish on Q4 and times to come. And he also said that the foundational changes are almost done and we're adding new products, which would add more growth. Can MD sir, please, kind of quantify this in terms of the growth in ROE road map for FY '25 and FY '26?

Mathews Markose: See, as Raman was mentioning, the reason why we are adding up more products is, of course, the fact that we predominantly were a two-wheeler loan company. 90%, 91% of our book was two-wheelers, where the average tenure is only 24 months and the runoff is very, very fast. So if I'm disbursing INR100 crores, I don't grow, because I collect also INR115 crores, okay? So the products that we are adding now, which is used car and LCV, both of these products have a tenure of about 48 to 60 months, average tenure, which means the growth in AUM as a result of adding these products would be faster than what I'm able to grow in two-wheelers. And two-wheelers will continue to be my war horse. So that is one.

Two, while I'm hiving off into the businesses like used car and LCV, my average IRR would continue to hover around 18.5% to 19%, because that is our sweet spot, that is a segment that we are focusing on. Our focus segment on the LCV side would be the FTU, FTB, which is a first-time user, first time buyer segment.

And therefore, we will be able to get those rates. So therefore, our yield that is at 17.5% as of now or thereabout is not going to go down. With adding these numbers, our overall average yield will only tend to move towards the 20% mark then come down. Because as the partnerships

are growing, we continue to add more on the retail side of our own business as well. Okay. So therefore, the ROE, ROA guidance that Raman has given remains intact. That doesn't change.

Rajiv Mehta: Sir, I was looking out for a slightly longer-term guidance for FY '25, FY '26 with slightly longer term since that'll give us some clarity about...

Mathews Markose: Okay. Longer term, I don't know whether I can make a forward-looking statement. But yes, the general direction that we want to take this company in the next 3 to 4 years is to a INR10,000 crores book, where 40% would be two-wheeler -- 40% to 50%, about INR4,000 crores will be two-wheeler, INR2,000 crores each on used and LCV businesses, and about INR2,000 crores of liability book, that's the broad aspiration that we have.

And that's the way we are building the foundation. That's why we have put all these businesses as separate SBUs. Earlier, we had just about sales units North and the East, South and West. Now we have hived off with all of this. Two-wheeler is a different SBU, car loan is a separate SBU, LCV is a separate SBU, that's how we are creating it. Retail liability is a separate SBU. And alternate channel is a separate SBU, which will cater to sourcing all these products through our alternate channels, which is MFL and Muthoot FinCorp branches. So that's the broad guidance on the numbers.

Rajiv Mehta: Okay. And what will be the profitability of our co-lending business? Because you spoke about having 0 NPA. But broadly, in terms of, say, ROA, ROE, what is the steady-state profitability of this model that we have done?

Ramandeep Gill: Sir, in terms of -- percentage-wise, I'll say, I'm able to earn somewhere around 3% to 3.5% flat after excluding all my finance, all provisioning part, and all my opex.

Rajiv Mehta: So this is on the loans which you generate, you're able to earn 3.5%?

Ramandeep Gill: Yes, yes. After excluding everything.

Rajiv Mehta: Yes, after tax?

Ramandeep Gill: Yes.

Moderator: Thank you. The next question is from the line of Chintan Shah from JM Financial.

Chintan Shah: So 2 questions. One is, if you can just clearly articulate the economics of our own book versus the co-lending book. I mean, if you could just broadly spread between what was in terms of opex and the final ROA for both the businesses?

Ramandeep Gill: Okay. Another question?

Chintan Shah: And the second -- so based on this, second question is, I mean, if I look at the co-lending disbursements, etcetera, that is happening, so if you look at the Q3 numbers, it's already 58%. So my sense is the co-lending piece continues to increase. And at the same time, we have our own setup,

etcetera. So how does the mix actually move to. And actually, does it even make sense to go for co-lending? That's my second question.

Ramandeep Gill:

Okay. So we'll start with, first of all, why we have chosen the route of partnership. That everyone knows that the company has already seen a bad phase in 2022, wherein just because of -- I'll not say anything, but yes, due to one short-term yield, interest income, sourcing everything and anything in the areas where we didn't have any footing led to what? Led to a short-term operating income on a very higher side and a long-term loss both to investors, shareholders, and everyone, right?

So while we had a co-lending -- if you see our co-lending partners, they all are industry players, have expertise there from last 40-odd years, wherein they know the industry extremely well. That is the reason we don't want to burn our hands wherein we'll be investing our own money and then we will say, "oh, we had a loss, but that loss is only for one time". No. We want to invest the funds, and we want to learn from their expertise also. And that is the reason we initiated partnership business 14 months back. That was the reason.

Second thing is, sir, the question that you have asked, yes, our yield -- from our yield -- when we talk about Muthoot Capital Services, on all the loans that we have sold, the borrowing cost remains same irrespective whether it is a co-lending or an MCSL business, it's 9.82%. Whereas our yield specifically comes at 23-odd percent. Whereas yield from the co-lending is somewhere around 14.5% to 14.75%. That's what we are earning from these partnerships.

In terms of my opex and all, all the employee costs that we are earning, all those employees are majorly towards building -- we are building the employee strength, if you see, in the last 2 quarters because we know that business volume from MCSL side as we have to work with expansion also. These will be the employees wherein we don't have to hire people now. We have already built a team for ourselves. That is the reason we can see there is a slight jump in our employee expenses also, wherein we have seen that -- because we know how many employees we need.

See, end of the day, it's a game of 1 counter sales executive will do how many units. We are expecting 1 counter sales to do somewhere around 15-odd units. Right now, we are at somewhere 7 to 8. But yes, since they were also new to the system, and they have been able to spend 3 months now. In the next 3 to 6 months, their number will also go up.

So cost for me, as I said, will remain same. But yes, since the business which they will bring specifically for the MCSL, that business, on that, NII will automatically go up, sir. That's where we are, sir. We do not have any separate cost for co-lending. Yes, we do have 2 operation guys who are there for their SFTP folder, for all those things, right?

The policy is there wherein our underwriting team is there, one person is there, who is basically sorting out all the cases, 1 person assigned for each partner, so that cases can be disbursed in a

timely and in a paced manner. So that's how our opex is in terms of our partnerships. Rather the remaining opex entirely and purely belongs to MCSL.

Chintan Shah: Okay. Sir, so just to clarify then, what will be the ROA for our own book?

Ramandeep Gill: Sir, if I see in terms -- just hold for a second, sir. So sir, when we say ROA for the -- return on assets -- if we talk about the own book, sir, our own book, as we speak, it would be somewhere around 6%.

Chintan Shah: 6%, okay. So right now, this quarter what we have delivered is somewhere around 2% on a blended basis. So to put it correctly, what you're trying to say is currently, our employees, etcetera, branches, etcetera, all has been underutilized, and going ahead, with the new businesses that will scale up. So eventually, in FY '25, we will reach somewhere around, say, 4% ROA?

Ramandeep Gill: True. And sir, just to inform you, what we have done here, roughly to compute the ROA, I have excluded the profitability of co-lending as of now, what we had, on a rough basis, right? And with that interest income -- sorry, with that return, I have only taken the asset base of MCSL business. That's where we have been able to arrive somewhere at 6-odd percent figure. That is one, sir.

Second thing is, yes, as I told at the start of the answer of your question, that we don't want to build a business wherein we know that, yes, we can do 100%, we are having sufficient funds, we can go to the market and do the funds. This will only help us for a short period of time. The asset base of the company has become so solid now that in last one year, we were not even talking about the NPAs of last financial year, we are always talking about the NPAs of pre-COVID era.

That's where the actual sense of the organization has -- we are having reviews every day, monthly reviews by the CRO, because we wanted to take asset quality on a very serious note. Because I as a CFO, and in fact my CEO and MD also, we don't want to build a book which will only give you gloomy picture for a very short period of time.

Chintan Shah: Okay. Got it. Understood.

Mathews Markose: I want to add some more to this. When I mentioned we are doing some foundational work, I mean it in the sense that we have revamped our entire collection structure. So we have built score card for collection for today. I run a score card on the 22nd or 23rd of every month, one called a pre-delinquency management scorecard. Where I run it on -- I have split my portfolio into never bound and ever bound. On the ever-bound cases, I run the scorecard, which gives me a probability of which are the customers who have the highest probability of bouncing their EMI. That gets worked upon right from 24th onwards.

We do rigorous recalling on those dates till the 5th, which is our EMI date, and therefore, we've been able to reduce the bounce -- number of bounces by this method. Then for each subsequent bucket, bucket 1, bucket 2, bucket 3, I have scorecards which will tell me which are the

customers who have highest probability of roll forward. And my collection allocation strategy is completely based on BAT now. Earlier, it used to be random saying that, okay, this is the guy. I allot him 100 cases, another guy, allot him 80 cases, etcetera.

Now it's a scientific process. Every allocation is decided based on the quality of the resource and the probably to the customer to bounce. If a customer has a high probability of bounce, it will be dealt with initially, in the sense, giving it to the best collection agency rather than giving it to the tele calling team. Two, if a customer has a high probability of roll forward from one bucket to other, it will be given to the best agency or to the best executive accordingly rather than giving it on a random basis and wait for him to roll forward and bring him back.

And that is the reason why, if you look at it, in Q3, while the book has grown by close to INR500 crores or the disbursement has grown by INR500 crores, the NPA has remained stagnant. I think only INR40 lakhs is the overall growth in the NPA even considering the old book. So that is the kind of scientific approach we have brought into the entire collection process, sales process. And with this new LOS also coming in, we see good potential to grow in Q4 and ahead.

Chintan Shah:

Got it, sir. That is well appreciated. And just 1 broader long-term question. And I am sure all other investors must also have this thought. So we've run this business for quite some time and then it has been like we are now relying more on the co-lending piece, which are much smaller businesses, etcetera, which started much later. So going by that logic, now we are entering into new businesses. So what would give us confidence as investors that with that, basically, we do not see such a situation of lows, etcetera, that has happened on the two-wheeler side?

Mathews Markose:

I didn't get your question completely. You...

Chintan Shah:

I'll just rephrase it. My question is, on the two-wheeler side, basically, where we have been in the business for quite some time, and after that there has been huge blow up and then we relied on the co-lending partners basically. So now the new segments that we are entering, say, used cars or LCV, etcetera, so what would -- I mean, how would you give us confidence as investors that something similar does not end up happening over here basically, and now we are at a steady state, basically growth part.

Mathews Markose:

Okay. So first thing, it's not that our two-wheeler business has been bad always. Pre-COVID, our GNPA levels were only 5%. And post-COVID also, we have come to that level. So this blip was only because of COVID, which was a universal phenomenon, it was a black swan event. It is not that something went terribly wrong in our process or something. Yes, of course, COVID has made us wiser and we have put in more scientific approach, as I mentioned, on collection, etcetera, etcetera. Our focus used to be earlier on the bucket 3 or where it should not move to NPA.

Now we have started focusing from bucket X and ensure that not more than 2% flows into bucket 1. And therefore, the funnel at the end is so small that it is manageable. So that kind of scientific approach we have brought in, we've become wiser. But the business model was always right.

Our ability to do business in two-wheeler was always there. Now if you ask me, why did we start late into the used car and the thing, maybe yes, we could have started a little earlier.

But I think now that we have started, why we would be able to do it is because we have a huge base even within our own ecosystem of MPG Group. We have a Muthoot FinCorp, which has a 10 crores base of ever-trust customers of gold loan, etcetera, etcetera. We have a Muthoot Microfinance, which has a 1 crores base of customers ever-touched, may not be the active base, but ever-touched base. We have Muthoot Housing Finance. We have Muthoot Chits.

All of these companies focus on what you call middle to lower income group segment, which is our focus also. So we are not deviating from our focus segment. And that is the highest population in our country also. And that segment is where the income levels are growing, and that is a segment which is graduating from a cycle to a two-wheeler, a two-wheeler to a used car, a used car to -- or these are the people who were driving for somebody and now are aspiring to own a CV and be on their own, become an entrepreneur. So we are in the right segment, so to say.

We are not in the space which is 10% of the country and there are too many banks to focus on. We are in the space where the population is huge and it is unpacked and there is still a huge potential to grow. So if you say India and Bharat, we are in the Bharat space, we are in the rural market, we're in the pocket which is growing where the income levels are going up. Therefore, we are in the right space. There's no doubt on that. And if you believe in the India growth story, I think that is where we are targeting now.

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

Rishikesh: So my question is on yields. So what I've heard as of now, I think the broad sense is that the yields were temporarily down last few quarters. And the reason was because yields in our co-lending book went down. And now we are saying that we will get back to our normalized deals from next quarter, right?

Mathews Markose: Raman, I'll just take that, and then you can take on. So I think -- Rishikesh, thanks for the question. But I think, see, the way I would like to look at this is that on the business side, we are doing all the right things. These will keep changing based on various external environment, etcetera, etcetera. These are business models. Co-lending, is it a good model to be in? Today, every partner of mine has been approached by the biggest bank in this country for starting a co-lending partnership. That is the amount of focus that is coming into co-lending. Even there has been a comment from the regulators on co-lending business.

FLDG has been approved. Earlier, RBI was always silent on FLDG. Now RBI has said that, okay, you can go into taking a 5% FLDG. So co-lending is becoming a very, very popular mode of business, okay? So that is going to stay. All the big players are getting into this business. We have a first-mover advantage where we could rope in many of the partners because of our efficient delivery. Most of the co-lending partnerships get stuck because the discussions happen

for 3, 4, 5 months, then the integration goes for 3, 4, 5 months, and eventually, both partners lose interest.

But our ability has been, we've been able to close each co-lending association very, very fast. So we are able to agree upon a common policy, we are able to agree upon a platform, and we are able to execute it faster. And that's why we are having so many partners. It is not by chance that we have been able to do this.

So this being the case, the yield will vary. Of course, there is a huge opex on the part of the co-lending partner also. They have to do the entire sales, entire collection, everything. We are just providing the capital and they are banking on our ability to raise capital, because we have a brand name. So I'm not much worried on the yield per se. I'm more focused on are we growing? Is the business growing?

Are we putting the foundations right? Do we have a collection process right? Do we have a sales process right? Do we have a digital mode of delivery? Are we able to deliver tax to the customer? Are we able to deliver satisfaction to the customer? I think those are the things which we are focusing on as a company. And on all these aspects, we are ticking the right boxes. Yield can keep changing, and I'm not too worried on the yield, honestly.

Ramandeep Gill: And just to add in, sir, we have already seen increase in the overall yield, and you will always see the increase only in this yield. Because as I said, the MCSL business is going to go up.

Rishikesh: Got your point, sir. I think I was referring to because at the same level of AUM, like what we will be doing, let's say, expected in Q4. Last year, we were around 19.5% blended yield. So just what I wanted to know is how are blended yield structurally not changed?

Ramandeep Gill: Yes. Yes. Very good. So sir, again, I'll say that comparisons with the last years, on paper, on numbers are extremely good. Last year was the year, after Q3, we were struggling for funds, right? Bankers are on the call. With all due respect, we know that the GNPA was extremely high, no banker was willing to take the call. I've already put a slide over there, where bankers, whosoever has funded INR100 crores, that has been dropped down by half, right?

Even after posting such a good result, why did we have to struggle for funds. One simple reason, sir, yes, yield is important for everyone. At the end of the day, how long you are able to take that yield without turning asset into the NPA, that is most important, sir. That's the reason we have taken a route of co-lending and partnership, sir. And now we know that there our processes have been strong, top management has been hired, right?

Everyone has been hired. So we know that in the quarters to come, 100% I'm sure that MCSL business will go up, so as my yield. The yield which we were talking of last year, we might make it behind after Q1 of next year. So that is something which is, yes, on our mind. But for us, the focus will always remain on the asset quality, sir.

- Rishikesh:** Okay. So basically, if I'm getting it correct, so a couple of more quarters or 2, 3 quarter, then you might see some trajectory on your yields more than 19%, 19.5%...
- Ramandeep Gill:** More than that, sir, more than that any day. Sir, we have already reached from 16.5% to 17.5% in this quarter. If you see from Q2 to Q3. One more quarter, maybe it will take you to 18%, 18.5%. Then Q1, Q2, we will not be even talking about that Q3, honestly speaking. That's how I see MCSL's potential pan-India, sir.
- Rishikesh:** Okay. Okay. Also, about our used car business, can you share the loan book that we have currently in our used car business?
- Mathews Markose:** Used car business we have just started, it's about INR20 crores, INR25 crores book. That's all. We've started.
- Rishikesh:** Okay. And how do you see this book growing in next 2 to 3 years?
- Mathews Markose:** We want to take it to a INR2,000 crores book in the next 3 years.
- Rishikesh:** Okay. Okay. And also we are adding new segments, used car, used LCV. How do we see the opex growth for next 2 to 3 years?
- Mathews Markose:** Raman, do you want to take that?
- Ramandeep Gill:** Sorry, sir. Yes. In terms of our opex, it's basically a combination of -- as I said, sir, my employee expenses has already been incurred in terms of hiring and all. Right now, we are not -- except for increasing my used car and LCV, wherein we want to expand on those lines, other than, sir, for my two-wheeler and for my used two-wheeler, the entire employee strength has already been hired. So I don't see much growth into that. Yes, a new product, as you know, as I said, used car has come, wherein we will see some bump into that. Other than that, I don't see any jump.
- Mathews Markose:** Okay. To add to that, LCV, before we decided to get into that business, we made a P&L, along with some consultants who had been there, and it was a P&L which broke even in the first year itself. I think by 11th month it was breaking even. That's one. Two, LCV is a business where typically the first-year collection is taken care by the sales team only. So I don't need to invest in a collection team immediately.
- I already have a credit and a collection team at an enterprise level. They will be able to support and sales will take care of the collection. Also, in the used car business also, it is similar. About first 6 months, the collection is taken care by the sales team itself. So I don't need to invest there. The credit, sales team, our collection team can be common for the time being until we start building volumes on that. So therefore, I don't see a challenge on the opex side.
- Moderator:** The last question is from the line of Aditya Shroff from InCred Asset Management.

- Aditya Shroff:** Sir, I just wanted to clarify on a few things. So this quarter, on a sequential basis, we saw some AUM growth as well, and there was also improvement in spreads, but still the NII was flat. So I still did not to understand what was the reason behind the flat growth in NII.
- Ramandeep Gill:** Two things, sir. In terms of NII, if we talk about the overall NII, sir, if you see, in Q2, we have struck off INR235 crores of AUM in terms of my NPA, right? So earlier, that was the part of my overall AUM, okay? On that, there were also some interest accruals, yes or no, sir? Because as per Ind AS 108, it allows us to accrue interest on those portfolios as well.
- So when that portfolio has been kept out from the books, obviously, we will lose interest out of that as well, right? Though we have saved provisioning part, which is only 1% to 2% of that NPAs. But that is the reason, I'd say, our book has grown up, everything has grown up, but yes, the book that we have sold off has also contained some part of that in my NII...
- Aditya Shroff:** So basically, you're saying there was some interest reversal?
- Ramandeep Gill:** Yes, yes, yes.
- Aditya Shroff:** Okay. And secondly, sir, could you please explain what was the repossession loss that you were explaining earlier?
- Ramandeep Gill:** What was the reason of...
- Aditya Shroff:** Repossession loss.
- Ramandeep Gill:** So repossession loss we are having somewhere around INR3.25 crores, sir.
- Aditya Shroff:** Okay. So what is the repossession loss? So basically, you were saying that we had repossessed a vehicle and we are unable to generate any income out of it, or are you saying that...
- Ramandeep Gill:** No, no, no. We have repossessed the vehicle and we have sold that vehicle at a loss of INR3.5 crores. All these vehicles were having DPDs of 450 days plus.
- Aditya Shroff:** Okay. So can you...
- Ramandeep Gill:** Sir, that's the reason this repossession loss has been shown in the impairment.
- Aditya Shroff:** Okay. Can you give me a guidance for what is the credit cost that you are building in? So because earlier we did not have any co-lending arrangements where we had 0 NPAs. But now that we are doing more co-lending, can we expect a reduction in the credit cost? And what would be your guidance for it?
- Ramandeep Gill:** Sir, we are already seeing that. And just to give you a glimpse of what we are following in our respective stages. At stage 1, we are having 1% of the PCR, wherein whatever there is in stage 1, we keep it like this. Stage 2, we are having somewhere around 11-odd percent. And on stage 3, we are having 42.22% of the overall portfolio, whatever is happening in the stage 3. That is

there in terms of my MCSL business. Whereas with respect to the co-lending, since you know that there is 0 NPA as of now, so there in the cost on that then overall that we have taken is 0.60%, on the co-lending number.

Moderator: As that was the last question, I now hand the conference over to Ms. Shweta Daptardar from Elara Securities Private Limited for closing comments.

Shweta Daptardar: Thank you, Muskan. On behalf of Elara Securities Limited, we thank the management of Muthoot Capital to provide us the opportunity to host the earnings call. Thank you, team. Thank you all.

Mathews Markose: Yes. And on behalf of the management, I want to thank all the investors who are keeping faith in us. And I want to assure you on behalf of the management that we will continue to build value for you. We are on the right track. We are doing all the right things. We will continue. We are cognizant of the fact that your money is with us, and we really appreciate that, and we will continue to add value to that. Thank you so much.

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