



“Muthoot Capital Services Limited
Q2 FY '24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the Muthoot Capital Q2 and H1 FY '24 Earnings 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 over the conference over to Ms. Shweta Daptardar from Elara Private Limited. Thank you, and over to you, ma'am.

Shweta Daptardar: Thank you, Malcolm. Good morning, everyone. On behalf of Elara Capital, we welcome you all to the Earnings Conference Call of Muthoot Capital Services to discuss the Q2 and H1 FY '24 performance. From the esteemed management we have with us today Mr. Ramandeep Gill, CFO; Mr. Mathews Markose, CEO.

Without much further ado, I now hand over the call to Mr. 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, Malcolm. Thanks, Shweta. A very good morning to everyone. Thank you so much for joining this call. To begin with the earnings calls, we would like to share few numbers with you as a summary towards my Q2 and the H1 results. We'll start with the operational highlights of the company, wherein we'll deep dive on what has actually happened in this quarter.

In terms of AUM, we are standing at an AUM of INR1,771 crores. As business of the company has gone up as far as Q1 is concerned, we have done our business of INR201 crores, whereas in Q2, we have been able to do INR328 crores. The company has a total clients, which have been acquired by the company in this quarter stands at 39,093, which makes our total life base of the clients at 3,92,747.

The company has been successfully able to take the balance sheet size of the company at INR2,244 crores, the borrowing of the company stands at INR1,586 crores, which has a total average cost of funds at 9.80%. The biggest topic of this company wherein which we were facing for the last 18-odd months wherein the GNP of the company was extremely high. We started at March 2022 with a GNP of 25-odd-percent.

Now we are standing at a GNP of 11.67%, including the interest accrual and 10.81%, excluding the interest. Whereas the NMP of the company stands at 3.88%, which includes the infrastructure NPU also, which we have shown on the higher side, whereas if we exclude that interest, the NMP stands at 2.94%. This has been done because of one ARP transaction of INR235 crores, which the organization has done in Q2.

The company has done this ARP transaction with Phoenix at a valuation of 50%. The overall pack of the company for H1 stands at INR101 crores, which remarks a very remarkable growth of 210% as compared to year-on-year. The return on assets stands at 17.17%, again, making a significant growth of 391% as compared to year-on-year. The GNP and NMP, which we have

already spoke, the company having a very healthy CRAR of 35.41% as you speak with debt to equity of 2.69x only.

The company has been successfully able to give EPS of INR50.59 whereas return on equity stands at 60.59%. The company has generally operated at an LTV of 80.56% during the quarter. The growth in the AUM, as we have seen, the business number has increased in Q2 because of one ARP which the company has been done, we can see our portfolio has been derecognized from the book in the Q2 itself. That is the reason we are having a lower area. But that is something which we have already planned for in Q2 itself.

The company is having the PCR route at 75%, which is still higher as we compare to the industry. Our peers are operating at 60%, but we have taken a conscious call to keep PCR as high as 75%. Earlier, we used to operate with a PCR of 85%. There has been a significant growth if we compare to the Q2 of the last financial year in terms of ROA, 3.5% has become 17.2%.

And in terms of ROE, 17.8% has become 60.66% for this quarter. The EPS, as I said, stands at INR50.6 which if we compare it with the Q2 of the last financial year, it stood at INR11.1. The [net on 0:05:56] funds, when we started this financial year, we are having an own funds of INR489.30 crores, which are now standing at INR590.40 crores.

The company has been able to successfully manage their NPAs, where at the start of the year, we were having an NPA of INR435 crores. At Q2 ending, we were having an intro INR424 crores. After recovery, after having a pool, so sold out of INR235 crores, the company is giving an GNPA of INR194.44 crores as an absolute figure.

If we talk about in a partnerships, which I already said in the Q1 of this financial year, the company has been successfully able to sale to with the partnerships in this quarter as well. The total outstanding for all partnership that the organization is having in terms of co-lending, we are having outstanding of INR333.58 crores. Out of that, we record that there is not even a single case, which is NPA, which is a very good sign in terms of partnerships of the company.

Liability front, as I told, the company has been successfully able to roll over all its working capital demand loans in this quarter as well, whereas we are also attracting the new facilities. While affecting the new facilities, what we have done is the incremental funding, which the organization has raised in the Q2 of this financial year, we have been able to see a decline in the overall funding cost of the company by 0.10%.

If we talk about the mix of the funding which the organization is having, obviously, out of INR1,570.63 crores funding, the bank loan plays a very important role, wherein we are having approximately INR962 crores of funding from them. Whereas in terms of securitization, though the company has not done any securitization in this financial year as well due to the fact that we have done the securitization in the last financial year, the outstanding remains a very significant of approximately INR264 crores whereas a combination of MLDs and NPDs that we have raised in the last financial year and some portion that we have raised in the Q1, it stood at approximately INR250 crores.

In this quarter, what we have done, especially that I say, apart from the ARC is we have made our fixed deposit rates competitive in our state. We have compared those rates with all the NBFCs and the banks, which are operating here. Basis on that, we have increased the rate, and we have been able to attract funds from FDs also and plan in Q3 and in Q4 itself is basically to get more and more funding from the FDs so that we can have a significant impact on the overall cost of funds of the company.

As far as the total ECL is concerned of the company, the company is maintaining a significant ECL as compared to the IRAC norm, which has been prescribed by the RBI, which is a very, very good sign in terms of the overall portfolio of the company. We are still INR25 crores higher than as described by the IRAC norms of the RBI. These are the financial treat, which I wanted to share before I would like to hand over this call to our CEO to give you more insights on the business of the company in the Q2 and the H1 and how the business will grow in Q3 and the Q4 as well.

Over to you, Mathews, sir.

Mathews Markose:

Thank you, Ramandeep and good morning, everyone. So once again, good morning, everyone. And as our CFO, Raman has already put us every clearly that our business numbers jumped almost from INR200 crores in the Q1 to INR330 crores in Q2. And we have very favorable tailwinds going into Q3 with the festive season. So we are already looking at closing as close to our Q1 numbers this month itself, in the month of October and November is expected to be much better because of Diwali happening across the country. So I think Q3, we should close somewhere close to INR600 crores of disbursement.

And of course, we will have to maintain the momentum. So now our feeling is also in place in most of the markets. we've finalized very, very good partnerships, which, as Raman had pointed out, is doing a very, very healthy business for us with zero NPA. Some of the things that we are going to do in the quarters to come, we're going to change the pace of our organization per se. So we are creating four different SBUs under our company.

So 2-wheeler will become an SBU, used car will become an SBU, LCV will become an SBU and digital sales and retail liability will become an SBU, independent teams of sales, credit collections, everything within each of these verticals. Now we have a common sales credit collection for most of this because the volumes are low. But in Q2, we started doing very well on used car. We hired our entire team across, so maybe at the end of Q4, we will have all the four SBUs working independently because we want to scale up business on each of these four lines.

That is going to be really a game changer for our organization in terms of growth of business, growth of AUM, as Raman already pointed out, after an ARC transaction, our book is looking very healthy now. So that is going to help us very strongly when we go to bankers. And that we already started seeing results of that in terms of reduction in our cost of funds.

Q3, Q4 are going to be really exciting for us. Also, our flagship company, which is Muthoot Fincorp. till now, we were working with them on our DSA arrangement where they were doing

business like any other dealer or DSA with us and we would share some commission to them based on the market standards and based on our arm's length distance that we need to maintain for our group company.

But we are now getting into a new model with Muthoot Fincorp, which is a DC model, where we will also be engaging collections for us. So they will do through the entire life cycle of the loan business service that is right from sourcing to collection, the issuance of NOC foreclosure and everything. And that model will bring a lot of benefits for both our companies, one because the branches will have a significant share of income going up due to this tie-up and their interest in this whole business will go up.

The whole objective of this is that in the past, we have done larger numbers from there. But since the branches are now diversified into multiple products, we have somewhere locked the focus, which is going to bring back the focus and we are expecting a metal business itself to contribute about 5,000, 6,000 numbers to our overall volume per month.

I think you are looking at very, very exciting times ahead, and we are really confident of the next 2 quarters and the next year as we see it. Thanks. Over to you, Raman.

Ramandeep Gill:

Shweta, you can go for questions now.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yash Agarwal: from JM Financial. Please go ahead.

Yash Agarwal:

I have a few questions. My first question is the numbers excluding this exceptional item, that is the write-back seen slightly poor because the PAT run rate is down from INR24 crores, INR25 crores to INR16 crores. And even the ROA run rate is excluding the ride rack is about 2.2%. So where do you see this firstly the numbers settling in the next few quarters and obviously for the full year of FY '25?

My second question is the yield on advances designed from about 9.5% to 16.7%. So firstly, what is the reason for this decline because the interest rates everywhere are going up, even though cost of funds are going up, what is the incremental yield on disbursements that we are doing? That's the second question. And the third question is, we spoke about the INR2,400 crores, INR2,500 crores exit AUM by FY '24. We are at INR1,750 crores, INR1,770 crores now. So the disbursement run rate of INR600 crores that you spoke about in the third quarter, would that be sustainable in the fourth quarter and FY '25? And what is the revised AUM guidance for FY '24 and FY '25? These are my 3 questions.

Ramandeep Gill:

Sir, I'll take it. First of all, yes, thank you so much for asking the question on the exceptional item. I'm very happy, someone has asked a proper question itself. See, yes, what happened is exceptional items are the items which end says that that you need to show it in face of financial, so that reader of these financial statements should know that something extraordinary has happened, which organization want to highlight it.

Now if you talk about INR16 crores of profit, you are comparing it with the last quarter in which

we haven't done any ARP. Now suppose, if I have not been able to do the ARP, then what would have happened is the impairment reversal that you can see in the exceptional item, would have gone up, which means my pack would be somewhere around 28- odd CTR. How?

Because now the reversal of impairment has come to the exceptional item, as I have shown, because on this INR235 crores of the ARC pool, any impairment which has happened in the Q2 has also gone into the impairment reversal in the exceptional item itself whereas if we haven't done any sort of ARP, that reversal would have gone up in the normal impairment reversal. So I hope that answered your first question.

Yash Agarwal: Sure. And what is the ROA going to look like in the next 2 quarters?

Ramandeep Gill: So if we talk about return on assets in the next 2 quarters, it would be somewhere around in the range of 12 % to 15 odd percent.

Yash Agarwal: The quarterly ROA that you are talking about?

Ramandeep Gill: Quarterly one, Yes.

Yash Agarwal: Okay. But what is going to be a sustainable run rate? Because excluding all these impairments and all which are done with on the loans which were given possibly pre-COVID or during the first phase of COVID, what is the sustainable ROA run rate that you are looking at?

Ramandeep Gill: Sustainable, if we talk about that in the last 18 months, what we are doing is, firstly, we are speaking about NPAs, NPR is higher, right? Then we are taking the steps of recovering this amount from all our clients and all, and we are putting all the efforts. Last step was to do the ARC sort on the books. Now since we have done with all sorts of things, if you exclude the impairment from our financials, our ROA would be somewhere around 7% to 8%. That's what we are thinking. That's what our max sales.

You talk about this yield which is getting drop. I'll tell you what's happening is one, we have a portfolio which is a combination of NCSL-owned portfolio and the co-lending one. So when you increase your co-lending as well. So overall yield become an average yield. So whatever business that we are receiving from the co-lending partner. As I said, it has a zero NPA, right? So because of that, we are receiving some lower yield on that portfolio. That makes my average yield on the lower side.

So higher the co-lending partner -- higher the business that I'm doing from the co-lending partner throughout the country, I will be receiving the yield, which will be lower, when I'm doing this business from MCSL itself. That's the reason overall yield has got down. Your third question was on the cost of funds. As I said, in Q2 itself, we have seen some drop there.

And we'll also see the same drop in Q3 as well. The only thing is, we have also added to drop this cost is basically our FDs. As we've increased the rate of fixed deposits, the overall cost of fixed deposits to the organization as a whole, will not go more than 9.4% on ex IRR basis.

So again, the funding that we'll receive from fixed deposits will help the organization and

bringing down the cost of funds. So I hope these three questions. Now fourth question on the AUM. As I said at the start of the call, we planned this ARC in Q2 itself. Why? because of the evaluation that we are receiving. And the second thing is that, we wanted to take this call because of the fact that our cost of funds are increasing every quarter. So bankers may not see your NNPA. But yes, they will 100%, first, they will start about your growth NPAs on the higher side, you need to take a call on that.

So that's the reason, we wanted to take this call, and we have done this call. Second thing is, as sir, has already said, we are targeting for approximately INR500 crores to INR600 crores of business in Q3. Q3, why? It will be on the higher side as, sir, has said, it will be a festive season around the country. And so we are expecting some higher number. On a normal routine, we are expecting somewhere around INR450 crores of business per quarter and specifically in Q4 as well.

So if we talk about the revised AUM number that we have computed, it would be somewhere around INR2,200 crores. Secondly, the last thing, since we have done ARC for only 60% of the portfolio, which was my NPA. As we take a call because we have done this transaction to attract our lower cost of funds, still we will be asking from PSUs and all.

If we take a call, we might take a call in Q4 as well to exclude the remaining portfolio from the NPA as well and to do a fixed round of ARC. So that call has not been, we will not say against to it as of now, but yes, as and when situation will arrive, we will be 100% taking that call as well.

So revised guidelines, excluding any ARC will be INR2,200 crores to INR2,300 crores odd as of March 31, will be my estimate.

Yash Agarwal:

And my final number question would be on the current level of opex that we have. So I think we are doing INR40 crores of quarterly opex. So how much would that increase with the year because we used to do almost INR2,500 crores, INR2,600 crores AUM on the current opex run rate, what would the opex look like once the book expands further?

Ramandeep Gill:

See, as we speak, if you ask me, as far as opex is concerned, opex will only amortized because we have already built a team to do a business of approximately INR2,500 crores to INR3,000 crores a year. right? So opex will not increase. That's for sure. And if anything, that has to go up in terms of opex is basically, as our CEO has said, that we are going ahead with the used car as well.

So if we had to hire resources for the used car, that's the only case which I can see that there will be a slight increase in the opex. Otherwise, for my two-wheeler business, the base opex will only get amortized over a period of time.

Yash Agarwal:

And sir, incrementally, the INR500 crores, INR600 crores investment, what is the mix between two-wheeler co-lending and used vehicle?

Ramandeep Gill:

So yes, so I'll say 60% would come from the MCSL itself.

- Yash Agarwal:** That is two-wheeler?
- Ramandeep Gill:** Right. And remaining would come from the co-lending. If we talk about used cars, used cars will remain slow till March because it's only four months that we can do, and it would be somewhere around 4% to 5% odd of the total portfolio.
- Yash Agarwal:** And what are the yields between the three products that you spoke about the incremental yields?
- Ramandeep Gill:** Yes, if we talk about, since I have said even 60% would come from MCSL, so we can expect a yield of 24.86%. We would like to maintain the same. From co-lending, I would be expecting a yield of somewhere around 14% odd, and from the used car, again, 15%, 16% odd, that would be the incremental yield...
- Yash Agarwal:** Okay, sir. Thank you so much for answering all my questions.
- Ramandeep Gill:** I hope that exceptional item is clear, right, Yash?
- Yash Agarwal:** Yes. It is well said. Thank you.
- Ramandeep Gill:** The profitability has gone up. That's what I wanted to say.
- Yash Agarwal:** Okay.
- Moderator:** Thank you very much. The next question is from the line of Aditesh Rao from InCred Asset Management, please go ahead.
- Aditesh Rao:** Yes, sir, I had a few questions. So first of all, so why has the repayment rate has been so high for us, so that they completely nullify the new disbursement. So if you see in this quarter, we had INR328 crores of disbursement. But if you remove the ARC sale and even after that, since we have seen de-growth, this shows that we had a repayment of around INR318 crores for a disbursement rate of INR328 crores. So why has that been so high?
- Secondly, there has been a sharp reduction in the number of like customers. So it has reduced from 4.7 lakhs to 3.9 lakhs, so I just wanted to ask the reason for this? And lastly, one question on, so there has been no increment in the AUM, which was brought in by the existing co-lending partners in the last quarter. So like even if you see the WheelsEMI partner, they were at INR216 crores, there at the same amount even in this quarter. So why there has been no increment in the new way, when brought in by them?
- Ramandeep Gill:** Sure. I would like to answer all these three questions. First is, basically, you have spoken about the repayment, why repayment is so higher. The answer to this is basically since the loan time period of two-wheeler is only two years. That's the reason the cases which has to be matured, right. And now, we always expect INR100 crores of repayment every month has to come. That's an average repayment.
- Second thing is, you've spoken about the number of clients has also gone down, 78,000 clients have been sold to the ARC. That's the reason, 4.7% has become 3.9%. Third thing is basically

on the co-lending fund, where we asked about the WheelsEMI. Yes, Q2 was a bit slower for them. But in Q3, they have already done INR40 crores odd of number as we speak. So they will be doing somewhere around INR150 crores of the additional numbers in this quarter as well.

Aditesh Rao: Okay. Sir, and the new guidance that you are giving of around INR600 crores disbursement, so I just wanted to ask, if that is achievable because even in this quarter, we were already very longer about this adding a lot to our AUM, but we were able to add INR300 crores and now we are guiding of almost double that of the previous quarter. So would this be achievable? Because even in the last year in the same quarter, we were able to achieve somewhere around INR300 crores to INR400 crores only, so do you think this is achievable based on the...

Ramandeep Gill: In the same quarter, we were at...!

Mathews Markose: Raman, I will take that question. Yes. I will answer that question. You are right on the Onam part, but the fact is that Onam in Kerala has been one of the lowest in the past, near in the past few years that I can think of. Kerala normally does about one lakh vehicles during Onam and a normal average is about 70,000 vehicles, 75,000 vehicles.

Onam, Kerala did only 50,000 vehicles as a whole. Our market share has gone up. But since the market itself did not grow, we did not get the growth as expected. However, Diwali and this festive, Pujo and Diwali are a pan-India phenomenon and not specific to Kerala. Kerala is a very, very small part of the overall thing.

So it's about 13 lakh vehicles get sold, Kerala does 50,000 vehicles. So that market is, where we are banking on for Onam, but on the contrary, for Q3, where we just had the Dussehra getting over, and we've already seen very good numbers this month, so we should close at close to INR150 crores of disbursement this month, October. And November, we will cross INR200 crores easily. So that guidance that we are talking about is achievable.

And on the second part, what was the second question?

Aditya Shroff: The reduction in the number of live customers?

Mathews Markose: That already Raman explained to you, 70,000-odd customers were sold to ARP but on the incremental business guidance, yes, we are confident of getting to that number.

Aditya Shroff: Okay. So this quarter, we'll be able to see an increment in the yields by the earlier partner as well?

Mathews Markose: Yes, definitely.

Moderator: Thank you very much. The next question is from the line of Deepak Poddar from Sapphire Capital, please go ahead.

Deepak Poddar: Yes. Sir, first of, I just wanted to understand, I mean, if you have to look at last eight quarters, nine quarters, our AUM or advances has been around INR2,000 crores. I mean, plus/minus somewhere INR50 crores. So what is stopping us, is there any structural problem in the

company? Or what is stopping us to grow? The industry still has grown in the lower single digit. What is stopping us to grow?

Mathews Markose: Okay. So I'll take that question, Raman?

Ramandeep Gill: Sure.

Mathews Markose: Yes. So see, as you are aware, there was a complete change in the management. And for some time, we were not growing at the required speed that market was growing at. But if you look at, see the whole of last year, we were growing at a neck-and-neck pace with our collection. So we were INR100 crores a month, and we were collecting about INR100 crores a month. So the AUM has not grown.

And that trend continued in the first quarter as well, we disbursed INR200 crores, and we collected around INR300 crores. But since then, we've been able to bump the trend. So in Q2, was one of the first quarters where we actually disbursed more than we collected, but total volume was very less. This month, we will collect in this quarter, we will collect INR300 crores, but we will disburse close to INR600 crores. So there is straight away jump, that is going to get added.

And subsequently, going forward, we will continue that momentum because now in Q1, our staff productivity was about 4.5 units per staff. Now it has jumped to 8. And Q3, we will bring it to close to 12. So now we are focusing on the productivity of the staff, and that will obviously lead to this one increase in disbursements. The only issue earlier was that because of this change in management and already, there was a inertia in the system, which has stopped us from doing, but you should look at what is happening from Q2 and beyond. And that is going to be positive for the company. That is point number one.

Point number two is the fact that all the additional product lines that we are starting. So we have been a two-wheeler loan company for a far too long period, which itself, I think we could have probably brought in those changes earlier. But now we have gone all out. We decided that we are doing -- already the entire used car team has been set across the country. LCV, we are adding up as the new vertical because we see a lot of business potential there within our customer segment.

So once that also comes full-fledged, we'll have been hiring on all the four cylinders. So going forward, things will look very positive, and it's already start looking positive.

Deepak Poddar: Okay. So third quarter INR600 crores of disbursement, INR300 crores of collection. Do you expect the same thing for fourth quarter as well? INR600 crores and INR300 crores?

Mathews Markose: In fourth quarter, there is no festive season or anything to do that. But I am banking on, by that time, we will have reached the productivity of closer to 15, which will give you that growth. So this time, while I am still building on the productivity, I have an advantage of the festive season boom, which will come in, which already we saw some parts in October and November, we are expecting to be really big, all the dealers that we have spoken to are very, very gung-ho about

it. But by Q4, the existing team would have raised that product to the level of closer to 15. Plus, we are also adding partnerships so that will help us sustain that momentum.

- Deepak Poddar:** So what is our disbursement and collection target for fourth quarter?
- Mathews Markose:** Fourth quarter, we will be disbursing closer to INR500 crores to INR600 crores. Anywhere between INR500 crores to INR600 crores.
- Deepak Poddar:** And about collection?
- Mathews Markose:** It will be the same, INR300 crores to INR350 crores.
- Deepak Poddar:** INR300 crores to INR350 crores collection. Okay. And what is our ARC target? You said that we might look at fresh ARC for remaining 40% of AUM in the second half. So what is our ARC target for second half? Is that something that we have set for ourselves?
- Mathews Markose:** No. See, I'll say that again, see, basis on the what is the feedback that will receive from the bank for PSU, that you need to further to bring down your NPAs and all. Then we will take a call. Otherwise, we will not take a call of doing another ARC.
- Deepak Poddar:** And so in case we do any further ARC then INR200 crores, INR300 crores ARC...
- Mathews Markose:** No. The remaining pool is somewhere around INR160-odd crores.
- Deepak Poddar:** Okay. So if at all, we decide that we do this INR160 crores ARC as well. So our AUM will slip away to INR2,000 crores, right?
- Mathews Markose:** Yes, true.
- Deepak Poddar:** And in the last con call, I think we had said that we'll grow by about 15%, 20% PAT growth on a Y-o-Y basis and ROI of 4.5% to 5% in FY '24 as a year as a whole. So how do we change that?
- Mathews Markose:** No, in terms of that, if we remove that reversal of impairment itself, I will stick on to the same number.
- Deepak Poddar:** No. So that's one-off, right? I mean you have to exclude that number?
- Mathews Markose:** I'm excluding itself.
- Deepak Poddar:** Excluding that, you are targeting 15%, 20% PAT growth?
- Mathews Markose:** Yes.
- Deepak Poddar:** Because if I exclude that, my PAT number this quarter would be close to about INR15 crores, INR16 crores. The first half is about INR30 crores.
- Mathews Markose:** That's what I have explained. That PAT number that you are seeing is INR15 crores, INR16

crores is basically INR25 crores because the component of impairment has been transferred to the exceptional item there. That's an INR8 crores, INR9 crores of comprehend that we have transferred from upper layer to the exceptional item.

That's the reason you are saying PAT on a lower side. If you exclude that, if you compare apple-to-apple without having an ARC that yes, the company was having a profit of INR26 crores in this quarter as well. The only thing is that impairment of INR8 crores, INR9 crores on the normal portfolio has taken the gasp of the impairment reversal as an exceptional item.

Deepak Poddar:

Okay. I got it. So ROA also 4.5% to 5% will be maintained?

Mathews Markose:

True. And also to add to this, I think we are not too much excited on the AUM as of now, we are saying we are doing the right things for the company. So in terms of increasing disbursement, increasing productivity, bringing NPA down. So there's been a slight difference in what we had told about the AUM because of this ARC. So whether the second ARC will happen or not, that is something which we are taking on the call on. But overall, we will continue to do what is right for the company, that's more important.

Moderator:

Thank you very much. The next question is from the line of Pankit Shah from Dinero Wealth, please go ahead.

Pankit Shah:

So actually, can you throw some more light on the new model which you talked about with the parent and how -- which products are going to be there? Are these products exclusive to Muthoot Capital? And how the NPA is going to work there?

Mathews Markose:

Okay. So I will take that question. So we are getting into a business correspondent model with our flagship company Muthoot FinCorp. The objective is that they have a huge branch network of 4,000-plus branches. Currently, we are doing about 1,500 to 2,000 vehicles per month from that network alone. One of the reasons that we identified was that like in any branch model, even it's a banking model for a bank, there are multiple products that we have to sell. So Muthoot FinCorp branches also distribute about 20, 25 products on different, not MCSL, but different company products, third-party products, etcetera.

So the amount of focus that we were getting on two-wheeler other products had come down. So we worked out, the management of both the companies sat down under joint-board and worked out on bringing back that focus, and we arrived at the fact that whatever is actually going to contribute to their profit is what is going to drive that. So we said, okay, let us make some partner in this whole thing and not just one-time payout model.

We make them a partner because there are multiple times -- when they become a partner, what happens is cater to the entire life cycle, which means customer walked in for a gold loan if household, two-wheeler loan and from there, he continues to think he is the neighbourhood customer. He continues to come, walk into Muthoot Fincorp and start paying the EMIs every month.

Every time he walk in, there is a cross-sell opportunity till the time that an NOC is issued, NOC

is also getting issued from the this thing. And in the whole process since the involvement of the branch is so much, we share a part of the AUM. So the customer also -- the branch always looks at what is my AUM? Is it going up? Or is it going down? Otherwise, he would have closed the loan and he would forget about it. He has nothing more to do with it. He has taken a onetime payout.

Now we will continue to monitor the book. He is responsible for collecting also. Okay. So the branch managers, so there are 4,000 people tracking the AUM against somebody who's managing third-party business in FinCorp who is just tracking disbursement on a month-on-month basis. That is a change that we are bringing in. We are bringing the change in that outlook. So that is going to trigger the next level of growth for this channel because it's our own internal channel.

Pankit Shah: Okay. And the AUM, as you said, at the FinCorp level, but complete AUM will be recorded Muthoot Capital, right?

Mathews Markose: Complete AUM, will be booked on our books, but they will be shown a shadow AUM based on with we'll get the as income. Today, is still move -- disbursal 80,000 loans, they get whatever percentage on the 80,000 loans as a onetime fee, that's all. Here, the AUM will keep building as we do more and more loans that shadow AUM will be those a branch manager can see that today, my AUM on account of two-wheeler loans, so and so, and therefore, I will get a recurring income on that. It will become an annuity income for him as against the onetime predated income that he is getting now.

Pankit Shah: Right. So the profit share also would be throughout the life cycle of program?

Mathews Markose: Yes.

Pankit Shah: And do you also source used four-wheelers and LCVs from this?

Mathews Markose: we just source all our products through branches because see the Muthoot Fincorp branch is like a neighbourhood bank for the customer. So, in fact, we had run the campaign to, we saw that about 40% of our collections were happening in cash and only 50% was coming through NACH. So, we thought that okay, we can save a lot of money by converting these customers into NACH mode, etcetera, and we run a campaign.

And then we started calling the customers, we understood that these customers would say, -- no, if I have to pay through NACH, I have to go to the bank and pay, which bank is farther away from either we are Muthoot FinCorp bank is need I can do and pay there. So we understood that they are paying because of the affiliated towards that branch and that branch which is what we are saying to capitalism through this model.

Pankit Shah: Okay. Got it. And these used four-wheeler LCV, these products are exclusive to Muthoot Capital? Within the group company?

Mathews Markose: Yes. None of the companies do competing lines of businesses. All the four NBFCs that we have

under NPGR into distinct businesses. We don't compete with each other. So automotive is fully forte Muthoot Capital Services.

Pankit Shah: Sorry?

Mathews Markose: Entire automobile business is the forte of Muthoot Capital Services alone.

Pankit Shah: Okay, and does personal loan come into RPT?

Mathews Markose: Yes. We have two-wheeler, car, new and used, where new we will not be very aggressive on because of the rate. LCV, new and used and personal loan on the lending side.

Pankit Shah: So probably, say, three years, five years down the line, is there any particular target that you have set for used cars, LCV, personal loans, probably opportunity size is much, much bigger as compared to two-wheelers where we have this correction?

Mathews Markose: Our Chairman's vision is a 10,000 crores companies in the next four-odd years of which, approximately INR4,000 crores will be the two-wheeler loan book, INR3,000 crores will be the used car and LCV book.

Pankit Shah: Okay. And balance 1,000 can be of personal loan?

Mathews Markose: Yes, personal loan and all that.

Pankit Shah: Okay. Great. And last thing, if you can throw some light on the competitive intensity. We have seen that the competitors like Shriram or the financial arms of the OEMs have been growing consistently, especially they have an edge also with the dealership. With regards to two-wheeler, how should we see that?

Mathews Markose: We are also growing. Our percent in the overall industry is around 2%. But if you look at only the places where we operate out of, we are about 7%. And this 7% has gone up from April, it was 5%, now, it is 7%. And we are growing. So it is only function of how aggressive we are out there in the market and you can automatically increase your share. So you have to be present that's all, you have to be present, you have to be visible, you have to be completing that's all. In between, we had pulled back, and that's why we lost share, just regaining all that.

Pankit Shah: Okay. So just being present and being competitive, itself will need to growth?

Mathews Markose: Yes.

Pankit Shah: And sir, last thing, if you can repeat the INR10,000 crores mark, which you said, what is the time line? And is there any way for that it should be?

Mathews Markose: It's say, three to four year horizon.

Pankit Shah: Okay.

Mathews Markose: So the first thing that we have done is to hide out all these units as like BUs with an independent

business head, credit head collection operations, everything. So that will happen by March or April of this year. April of next year, we will have put up this entire structure in place. So what we have already done is hire out the sales team, and gradually, we will add credit and collection and operations. So by end of next year, we should have this complete independent for running these businesses.

So we are hiring the people from the market for this and making them run this year. Also, what we have done, also we have doing as a part of our expansion is that earlier we were saying that, okay, I think we are based out of Cochin headquartered in Cochin. Everybody has to sit here etcetera. So that was bringing some amount of limitation for us because you don't get all that talent in Cochin.

So now we have decided that all businesses would be based out of different cities, for instance, LCV is a big one. All the big players like Shriram, Chola, Sundaram all of them are based out of Chennai. So we'll have that business base out of Chennai. Two-wheeler, we will have a base out of Delhi because the person who we are identified is out of Delhi and he will be the manager. So we are now becoming open to that. So four horses for courses. That's what we are going forward.

Pankit Shah:

Okay. And what I assume is that large part of the growth from say, INR2,000 crores to INR10,000 crores hire that makes 5X AUM growth, majority of it will come from the Muthoot FinCorp branches?

Mathews Markose:

A good percentage will come from Muthoot FinCorp branches. In fact, it varies on product wise. So on that also, we have a road map. So on some products, Fincorp will be able to contribute more than some other products. So the plan, the blueprint that we have made has a channel-wise contribution that is projected, and that's what we will be arriving. So how much of it will come from co-lending, how much will be to our own feed, how much will be dealer DSA, how much will be digital sales.

So we are also putting up a digital sale unit. We are getting into partnerships with few market places like Bajaj Marketplace, BharatPe to be present on their side. So one, it will generate lease and business and two, it will help us cash more eyeballs. So there's a few of things that we are doing to lease this number. So there is a plan for all these.

Pankit Shah:

Okay. Thank you so much and all the best.

Moderator:

Thank you very much. We will take this as the last question for the day. I now hand over the conference to Shweta Daptardar for the closing comments. Please go ahead.

Shweta Daptardar:

Thank you. On behalf of Elara Capital, we thank the management of Muthoot Capital to give us the opportunity to host the earnings call. Thank you, team. Thank you all.

Moderator:

Thank you very much.

Mathews Markose:

Thank you Shweta, thank you all participants.

Moderator: Thank you.

Mathews Markose: Really looking forward, our support continues support for going forward. Thank you.

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