"Muthoot Capital Services
Q2 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Muthoot Capital Service Q2 FY2020 Earnings Conference Call, hosted by Antique Stock Broking. We have with us today the management from Muthoot Capital represented by Mr. Madhu Alexiouse, COO and Mr. Vinod Panicker, CFO. 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, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Digant Haria from Antique Stock Broking. Thank you and over to you!

Digant Haria: A very good afternoon to all of you. It has been a one terrible quarter in terms of macros and everything else where we can discuss and debate about everything including the primary sales and the borrowing cost, and the bank attitude and all of that, so without spending anymore time here, I will straightly hand it over to Mr. Vinod and Madhu. So over to you for opening comments and then we have a quick question and answer session.

Vinod Panicker: Good morning friends. This is Vinod Panicker. Thanks to all of you for being on the call with us. I would quickly want to talk about the financial numbers and then we will take questions from all of you.

This quarter like Digant has mentioned and all of you are fully aware of was a reasonably subdued kind of quarter and which is seen in the financial numbers that we have put up. The overall disbursement was at about 487 Crores of which hypothecation loan was about 463 Crores which was in value terms about 1% lower than the same quarter last year, but in volume terms it was about 10% lower.

Basis this, we ended the quarter with a total AUM of about 2779 Crores on overall basis of which 107 Crores was off the books. We have moved to Ind-As from the previous quarter and therefore except for Direct Assignment transaction, everything else is on the books. This led to the interest for the current quarter coming to about Rs 145 Crores, compared to the 132 Crores that we did in the same quarter last year and about 144 Crores that we did in the immediately preceding quarter.

The thing which needs to be noted, is that in both these last two quarters had a one-time income because of the direct assignment transaction which was about 7.5 Crores in the same quarter last year and 6.5 Crores in the immediately preceding quarter. If those one-time income or the abnormal amount is not considered, the growth versus immediately preceding quarter was at about 5% and growth versus the same last year was at about 17%.

We now talk about the interest finance expenses. In the current quarter we have reported a growth of about 4% versus the immediately preceding quarter and a 30% over the same quarter last year. Here we need to look at two things; possibly September 2018 was the last time when things were reasonably okay or was good. Since then, the conditions have deteriorated which has led to an increased cost for all, including us and also the book has grown which has led to higher borrowing by us versus the same quarter last year; the average extra money utilized by us was about Rs.278 Crores, which based on the current 10.3% interest rate, there is a cost of about Rs.7.15 Crores and basis the 1% increase in the cost of borrowing from 9.3% to 10.3%, there is an increase of about Rs 4.99 Crores, which both together is roughly about 12.15 Crores which is more or less equal to the growth versus same quarter last year against the immediately preceding quarter, the higher fund utilization was at about Rs.56 Crores and current cost, the cost has remained more or less same, only a 3 paisa increase, both together the increase was about Rs.2 Crores.

We have seen the interest cost going down in the month of September, if I take September month separately there was a reduction in the interest cost from about 10.3% odd to about 10.22%. We see this trend increasingly coming up over the next few months and we hope to take down the finance expenses over the next couple of quarters.

The operating expenses have seen increase, basis the company opting to continue with its plans of spreading out across the geography ensuring that whatever needs to be invested in infra, we continue to do that and basis which the employee numbers have gone up basis which the cost of the employees have gone up, the investment in business promotion and the advertising some of which have been incurred and some of which have been planned have been provided for. On the expenses relating to sourcing, this last quarter being the quarter for Onam, and we had given various schemes to the dealers. Those have been provided for though the numbers are still provisional as the schemes runs up to October end and then we would take a final call on the actual payout only in the after the end of October.

The extra expenditure which has happened is on account of the collection expenses which between the last quarter and this quarter has seen an increase of about 2.5 Crores versus the same quarter last year has seen an increase of about Rs 6.5 Crores to Rs 7 Crores. That is mainly because of the extra effort that you need to put on the collection, and which has led to increased cost of collection.

The last but not the least is the taxation, while we are possibly benefited on account of lower taxation which was announced recently of 22% if one looks at the presentation clearly, we are actually showing a cost of about 37.8% for the quarter. That is because of the deferred tax asset that we were carrying in the books which we had written off substantially last quarter when we moved from a 30% regime to a 25% regime for us and now from 25% when we have moved to 22%. The hit on the P&L on account of the deferred tax asset write off in the current quarter, the additional hit that we have taken is roughly about Rs 3.85 Crores, basis which the 37.8% tax rate for the quarter is coming.

On a half year basis, if one looks, total hit on account of the deferred tax write off, it is in the range of about Rs 9.25 Crores.

On half year basis, for our 2W business, we have reported our disbursement which is more or less same in terms of value, and an overall reduction in disbursement of about 5%. But when the industry has dropped by about 16% we feel that 5% is a reasonable number to get away with.

For the half year, the total revenue was at about Rs 289 Crores which led to a profit after tax after the hit of the deferred tax, which would be a one-time hit, of about Rs 27.6 Crores versus the Rs 38.3 Crores that we had last year.

I would now ask Madhu to continue.

Madhu Alexiouse: Good afternoon once again. I will talk from the market perspective so that you get a flavor of what is happening in the market and what is that we should look forward to. From the two wheeler perspective, I think we have seen a very bad Q2 quarter, the overall sales coming down by 20% approximately. There are some inventories with the dealerships. While we would need an official confirmation, it is about 5-6 weeks inventory that continues to be there. So H1 degrowth was about 16%.

Given this background, I think if we look at how we fared in Q4 and then Q1 and then Q2, we are kind of steady on our disbursement part and during my previous calls, I had said that we would take a very conservative view as far as lending is concerned, we continued that strategy and will continue that in Q3 as well.

If I were to give some more insights on what I am trying to tell is that we have our credit and risk processes in place, we select markets basis which are good to grow market and in the markets where there are collection problems etc. we need to degrow or any other inherent external problems because of which we may need to restrict our growth. I think in such select markets we have grown by about 15% and wherever we felt that we should not grow / degrow or grow conservatively we have done just that, else growth would have been much higher at about 25% to 30%.

So, given the market degrowth, in our preferred market we have definitely grown but we will continue this strategy keeping in view how Q3 pans out. BS VI vehicle has to be launched and we have to see how the OEMs react. Honda has already launched BS VI. We are waiting for other OEMs to hear from them what the strategy in Q3 and Q4 is.

Coming to the portfolio qualities, as Vinod has touched upon it, I think August was a very bad month in terms of rains and floods. It has impacted us. In fact, during Q2 we were thinking that lower NPA levels would happen. It got hampered especially in North Kerala, some parts of Karnataka and Maharashtra. Maharashtra was very bad in September as well. It has definitely impacted us. I think Q3 is the time when we should be able to roll it back and come to our normal NPA levels.

Last piece I would say about the new initiatives that we had been doing. Used cars we are now operational in 17 centers. Q2 we expanded into 5-6 states. That is something which Q3 and Q4, we would further grow and as we end this financial year as promised we would be in 20 centers, that is very much on track. We have invested, we have not slowed down our investment in this particular segment. We have built channels, we have built distribution network, and we have put our team in place, everything has got invested into it.

Secondly on the consumer durables the pilot study is still going on. I hope end of the Q3 I would be able to give you more insights on what exactly we are doing, and our pilot is on track as far as consumer durable is concerned.

This is about business perspective and industry perspective, I would hand it over to Digant for the Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pranav Mehta from Value Quest. Please go ahead.

Pranav Mehta: Good afternoon Sir. Couple of questions from my side; the first one is on the growth outlook for the second half, so first half of course has been very bad but we have the festive season going on so in light of that what are initial trends in this festive season and how do you see the growth panning out for the rest of the year? Second question is on our asset quality, so you did mention that August was a bad month due to floods etc., this QoQ increase in NPA that we have seen, is it only because of these floods or we seeing some pockets of stress in few states because of the general economic slowdown?

Madhu Alexiouse: First question Pranav, festive season as of now; yes, it is looking good. We were not expecting it to be this good, but definitely it is good, but when you talk about growth perspective as far as two-wheeler is concerned, we need to really wait for some more time. I said during my initial address itself that we have to wait for seeing the OEMs' strategy of how they are going to launch the BS VI models. It would be around Q3 that we will come to know how, what is the price, how the customers are reacting. I have an input from the recent launch of Honda vehicles. I spoke to few dealers BS VI models they have launched it is around Rs 1 lakh plus minus. The response had been good. They say they have a very good booking line up for this. It is actually having very good features, relevant new features are there in the vehicle, so the feedback was encouraging, but we will have to wait and watch how other OEMs are coming up and what is their price levels, which are the areas they are launching, and lot of factors are there, basis which we would be able to tell what two-wheeler industry is looking like, but as a general rule and as focus we had been telling that as far as Muthoot Capital Services is concerned we would definitely be double the growth of the market, so if market is degrowing still we have been able to maintain our numbers or show some positive signs especially in our select markets where we have grown considerably in. I am telling you that at our preferred markets we have increased our market share and in our strategy, we have entered metro centers as well metro dealers, so there is lots of action happening from our side to grab counter share at preferred markets. So we will definitely show much, much higher growth compared to the industry, but as far as industry is concerned let wait till Q3, let us wait and understand what exactly OEMs are planning out and then probably we will be able to kind of arrive at determining where we will reach. In terms of your question on NPAs, yes, August was very bad, in the sense that there were certain states where we saw not only customer getting impacted , but actually could not, even in September our team reach to the customer or the capability of our collection agencies to really function normally was not possible because of rains and the floods, so I would say this August and September when generally we roll back lot of NPAs which gets added during Q1, it did not happen this time and in some location though it happened, it happened in a very limited extent, but Q3 is the time when the crops and everything is there, the farmers and the rural areas has visibility on the crops and things like that and the cash flow improves; then the collections would improve; to some extent some level ground stress is there as far as customer cash flow is concerned, but we foresee that during this festive season it has improved, our collections are improving, business is improving and I hope that next two months, things should be back to normal as far as collection is concerned and cash flow of customers is concerned.

Pranav Mehta: All right Sir. Thanks a lot.

Moderator: Thank you very much. The next question is from the line of Krishna Parekh from Alcazer Associates. Please go ahead.

Krishna Parekh: Can you please with used car financing and consumers durables are loans that we are planning to expand our product portfolio where we are?

Madhu Alexiouse: So, used car we had said that this year we will reach 20 centers. We are already operational in 17 centers, team, channel, processes everything is in place, systems are in place in 17 centers, by end of Q3, we will be in 20 centers. Consumer Durable, I had said we are in a pilot phase. We are testing a lot of things because we are something different from the market, the thing is happening through Muthoot Fincorp branches. So you have to give me some more time to really tell how it is panning out and what is the strategy but definitely used car is on track and we are in line with whatever we have told you, maybe end of Q3 we would be able to tell the guidance that what we are looking forward in terms of growing that book in the next 1 or 2 years. Consumer durable also maybe end of Q3, we would be able to tell something.

Krishna Parekh: Sir we are generally we operate from our parent company's branches which I think we have already penetrated so where will further geographic penetration come from?

Madhu Alexiouse: So we operate not only through our Muthoot Fincorp branches, but we also have tie up with dealers across the country so besides the branches which is about 3500 plus of which we are operational in around close to 2900 branches, there are other touch points, approximately 5000-

6000 plus touch points which we have in the form of dealers, subdealers and we operate through them as well. So, it is mix of dealer plus branches.

Krishna Parekh: Can you just tell us the cost of borrowing trend going forward and what do you think about that?

Vinod Panicker: Between last quarter and this quarter there was a 3 paisa variance, because 10.26% has become 10.29%, but I would say that the figure has started coming down in September, I think I had mentioned it in my opening remarks. September did see some bit of reduction and going forward we see the cost of funds going down and maybe by significant amount over the next couple of quarters.

Krishna Parekh: Thank you very much.

Moderator: Thank you. The next question is from the line of Umang Shah from SAIF Partners. Please go ahead.

Umang Shah: Good afternoon. Thank you for taking my question. Sir my question is to Madhu Sir. On the price differential between the BS VI scooters versus the same scooter in the BS IV what is the price differential there?

Madhu Alexiouse: It would be about plus minus 15000 and I said that the strategy OEM that I could get sense of is that they are coming up with lot of good features as well in the vehicle so there is a lot of attraction to the customer to look at that price point.

Umang Shah: So basically Rs 80000 vehicle which is now selling at Rs 100000 broadly that is about?

Madhu Alexiouse: Approximately let us say Rs 75000 is the current on road it would reach about Rs 95000 or Rs 100000.

Umang Shah: Sir if you look at the asset quality in north that has seen some sort of moderation, so you have any commentary on GNPA numbers, specifically in the north?

Madhu Alexiouse: I told during the initial address that the credit and risk has a mechanism of identifying preferred markets and deep focus market and things like that where collection problem is there; in north we had slowed down in MP, so MP the growth had been very minimal. We had taken some corrective steps there in terms of collections and bringing them back to normal lower buckets, so basically it is MP and maybe certain other couple of districts in other states, but we are going very strong as far as Delhi NCR is concerned, UP is concerned. UP is one of the biggest markets, we are doing exceedingly well there.

Umang Shah: Sir any quantitative flavor on what went wrong in MP and the other two districts where we are seeing asst quality issue?

Madhu Alexiouse: In two-wheeler especially in Retail Finance, it can happen anywhere in the country. It is not that market is bad. There could be various reasons and such corrective steps are taken on an ongoing basis. So when you take such steps and when the market is kind of not growing the chances of that looking up has a higher NPA is very clear, so in MP corrective steps have been taken but at the same time I will start growing the business once my collection is back to shape. There could be many other locations where we will say we will go slow for three months or four months and we will get into collection mode and then once the collection is back to shape then we will start improving there. So, there is always a learning from what kind of segment you are there in, what kind of vehicle you are there in, at pin code we monitor things. I would not blame any state, any area, any specific reason.

Umang Shah: Got it Sir. You know we are three weeks into October so any sense you are getting on the ground that collections are improving and what are the chances of reversal of the NPAs from current level?

Madhu Alexiouse: From business perspective yes, there is uptick as far as demand is concerned. We are seeing the positive impact of Dussehra, Diwali and I think Dhanteras is there tomorrow, I think. We are getting a very clear vision that things are looking good as far as demand goes and the investment like Vinod said that we stood invested in festive season, I think this October month it would benefit us. In terms of cash flow of customers October is looking okay in terms of collections. I think entire Q3 we will have to see how the cash flow improves, because that is the time when the customers are able to see their crops and the positive effect of monsoon is seen around Q3 and then cash flows improve. As of now, generally in festive season things really improve, it is about November and December as well when we will have to see how it has kind of helped us in the collection, but as of now in the October we are very comfortable in terms of business and also the customer cash flow.

Umang Shah: One last question is in your presentation you mentioned that there was some delay in payments from some corporate client, so Vinod Sir if you give some commentary on that one?

Vinod Panicker: In couple of cases there has been delay. In fact, these are not new. In fact, in the past also we have experienced it. They get good over a period of time. These are couple of cases there were delay and a lot of this payment had come towards the end of September we hope to regularize it in this quarter and the next quarter, but on our overall basis if you look at the corporate loans, let us say what are we talking about, over the last 12 months and 6 months separately. Last 12 months something like Rs.253 Crores was to be collected out of Rs.251 Crores was collected and in the last 6 months Rs.141 Crores had to be collected, Rs.143 Crores got collected, so I am saying that it is one or two cases which get spilled over to one quarter or two quarters more and nothing beyond that. We normally do not even mention it but this time we just made a mention of it.

Umang Shah: So, Sir it is not basically an NPA, it is just a delay, right?

Vinod Panicker: We specifically say it is a delay.

Umang Shah: Thank you so much Sir. All the best.

Moderator: Thank you very much. The next question is from the line of Kislay Upadhyay from Abakkus. Please go ahead.

Kislay Upadhyay: Thank you for taking my question Sir. The first question is we did not have any DA one-time income in this quarter? Did we not do any direct assignment this quarter?

Vinod Panicker: I think Kislay in our separate conversations, I think I have mentioned, my memories I have mentioned that liquidity we are pretty strong, and we continue to be that way. While there were opportunities to do a DA transaction, we did not see the necessity for the same in the quarter and hence did not do it and hence there was no one time income from DA in the quarter that went by.

Kislay Upadhyay: SIR secondly, I remember the fresh additions to NPAs, last quarter was 34 Crores. What would be the FY2020?

Vinod Panicker: Last quarter was about Rs.22 odd Crores.

Kislay Upadhyay: So that would be the net additions, right?

Vinod Panicker: Yes, net additions yes. Okay you are referring to the gross additions which are about Rs 40 Crores this time.

Kislay Upadhyay: Sir actually is that is what, so in slide 15 if I see the Rs.40 Crores gross additions are from first of April till?

Vinod Panicker: It is first of July to September 30.

Kislay Upadhyay: Actually slide 16 mentions slip to NPA during April 2019 to September 2019?

Vinod Panicker: We stand corrected. I am extremely sorry. In fact, we would possibly correct it and upload. It is July to September. I am sorry about it.

Kislay Upadhyay: No sorry. It is just a clarify, so that Rs.34 Crores is Rs.40 Crores this quarter?

Vinod Panicker: We are sorry about it.

Kislay Upadhyay: Also, Sir how much more of DTA is left to be written off?

Vinod Panicker: We take the hit then and there, so this quarter we have taken a hit of 3.85 Crores, last quarter we took a hit of roughly 5.4 Crores.

Kislay Upadhyay: Lastly Sir in plans of increasing our presence to more centers you said it is going to be a mix of dealer expansion and branch, do we have plans to setup our separate branches or is it just a penetration into the parent's groups branches that will continue?

Madhu Alexiouse: When I mentioned, these are two channels that we have, dealer and our own branch. We are building some other channels as well given the risk industry risk that is there, we are building some other channels which maybe after sometime I would be able to give, but definitely we are looking business correspondent model, which lot of smaller NBFCs have approached us that they want to do business with us given our brand name, our capability to understand that segment, so we see model is something which we are looking at. We are looking at some couple of other Fintech entities through which we would do the selling. Physical expansion, yes there two- three states which we are considering right now, which around Q3 we will do. Q2 we wanted to do but we want to do actually take the benefit of the festive season so entire focus of the organization was how we take the best out of the festive time, so around Diwali effect continues till November so around November, we may enter into at least two or three more states. We have been kind of hiring people, we are searching for people and so that could be there. So there is channel expansion strategy, there is a physical expansion strategy in the initial phase in fact Vinod also mentioned that as far as our business model and business growth trajectory is concerned we are very much invested in that and we will grow this and definitely two wheeler would be our core product, we will around this. There are lot of other initiatives that is happening which maybe next quarter we would be able to give you with lot of other numbers and figures, but there is no slowdown as far as our expansion, new product launches are concerned there is no compromise on that. We are very much on track as far as these things are concerned.

Kislay Upadhyay: Good to know and the lastly is one more thing. Sir I remember you mention that we would be slow on the other on lending part. Is the part of the same plan that we are going slow on the on-lending part of the book?

Vinod Panicker: Not on lending. I thought we will use the co-lending. I thought what you have said this co-lending not on lending.

Kislay Upadhyay: Actually, I meant the other loans part.

Vinod Panicker: On on-lending we are saying that we are going slow because right now while the liquidity is very good, we are saying that now let things improve then only we will start disbursing, so we have gone very, very slow on the corporate loans.

Kislay Upadhyay: It is part of our cautious approach.

Vinod Panicker: Yes.

Kislay Upadhyay: Thanks a lot Sir. All the best.

Moderator: Thank you very much. The next question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri: Sir my first question is on your hypothecation loans; while north and east have seemingly done very well despite challenging scenario, west which is also a very small proportion of our loan has not done as well, so what could be reason for that and I am talking in terms of volume, so 5961 count versus 7381 count in the same quarter last year?

Madhu Alexiouse: In fact, I think during last call or sometimes I had mentioned that west is an area where certain pockets in Gujarat and Maharashtra we are taking some corrective steps. If you look at the NPA percentage as well, it is on the higher side. We have consciously slowed down certain market there but at the same time there are select centers we are growing, Mumbai we are growing very aggressively and I had mentioned that there is a change in team there that we are doing from sales, collections, everything. We have put up a new team there now. We are building a team so once that is done there, then we will grow there, so till that time we will go slow, I mean it is a conscious decision but we will definitely grow in the market, so when I say that credit risk has certain preferred markets where they push full force, invest in green areas, our growth is close to 25% and wherever we wanted to grow we have degrown there, so wherever we wanted to grow, wherever we thought it is a profitable business, we have grown invest. On overall basis, yes, it is showing degrowth, you have to give us one more quarter once the team starts pushing, then you will see the numbers going up.

Kashyap Zaveri: Second question is on your cost. The borrowing part was alluded to in the previous some of the comments but we have seen the borrowing cost going up by almost more than a percentage point, if I look at some of the other costs operating expenses are also up about 27% YoY, so this profitability decline seems to be more stemming from cost increases than probably the revenue line item in terms of proportion so in terms of other costs, operating cost also what is driving that number so, is it collection cost or is there anything else that also we should sort of know about?

Vinod Panicker: Kashyap, Vinod here. I think, in my initial comments, I did mention about it, maybe I will elaborate on that. Two parts to it; one is employee cost. I think I have said earlier I am repeating it and so Madhu also did mention that while the markets are not great, and volumes are not the way we wanted it we have not reduced our expansion programs. We have gone ahead with it. We have gone ahead with the recruitment that needs to be done and the number of the employees in the organization has been steadily increasing for handling this extra activity basis which the cost of employees has gone up. Now when we talk about the other operating expenses, I will touch up on the collection front, we did mention about the need to have increased collection cost because of the increased delinquencies that we have seen on the ground which meant that lot more accounts were possibly flown into the second and third, and fourth bucket which needed the agencies to do the collection and they did the collection basis which the costs were higher and maybe the numbers could be slightly elevated over the next couple of quarters also. On the other cost, we did mention about advertising expenses. We said that we have planned something for which we have made provisions and that some of it has been already incurred, some of it is in the pipeline and would get incurred, but provisions have been made in the books on that. On the sourcing cost, we mentioned about the quarter being specifically the quarter for Onam. Last year if you try and compare with the last year, last year was a washout because there is no Onam because of the floods in Kerala nothing happened. This year by God's Grace there was an Onam and there has been target given to roughly about 100 odd dealers in the state of Kerala and whatever additional commitments have been given to them for additional incentive that has been factored in. I did mention that while the scheme continues till end of October whatever we thought about proportionately chargeable to the current quarter we have booked it as an expense in the current quarter. So I would say that there are several reasons which are all together led to the increased cost and definitely the cost seems to be higher, but then what I mentioned in terms of the income, that also needs to be considered, because if we look at the income, between last year same quarter and this quarter as the growth is 10% and then say that the cost have gone up you are right, but then the last year's income had a one time income of 7.5 Crores so that could be bump up and we feel that the growth is not high. The book has also grown by about 10%-12%.

Kashyap Zaveri: In terms of either lending rates is the slower or weak demand making it challenging for us to pass on the borrowing cost?

Vinod Panicker: We have taken an increase sometime in the month of November that is last November ; post that we have not taken any increase as such, but once we have taken the increase for the increase to have effect on the overall numbers it will take some time, because it is only on the incremental volumes that you get the incremental revenue so for us to take some effect it will take sometime, in fact in one of slides, if you see we had put the yield has actually gone up between last quarter and this quarter and you will see that continuously happening because the more the book will have the newer loans the more the yields will look better, otherwise there has been no major increases taken. The tweaking continues to happen and that will continue to happen.

Kashyap Zaveri: As you mentioned about the Rs.7.5 Crores exceptional income in same quarter last year, is that what is that?

Vinod Panicker: We had done one direct assignment transactions with LVB of Rs 90 Crores and that had upfront income booking of Rs.7.41 Crores to be precise.

Kashyap Zaveri: Sure, thank you very much Sir.

Moderator: Thank you. The next question is from the line of Jivan Rath an Individual Investor. Please go ahead.

Jivan Rath: Good afternoon Sir. Thanks for taking my question. Sir I just wanted first of all point number one what is the market share currently?

Madhu Alexiouse: On the total sales of two-wheeler in the country we are at about 1.8% which is up from 1.6% and now we are at 1.8% up by about 20 basis points.

Jivan Rath: Sir I was just listening to when you were explaining about BS VI vehicles and with EV two-wheelers also coming in. I believe the pricing point is 20%-30% higher so from our business perspective do we expect the vehicles purchased through the funding route, do we expect the proportion of that go up?

Madhu Alexiouse: Yes, so we have been maintaining that with the increase in cost the current finance penetration which is averaging around below 40% of the 100-vehicle sold, it should go up. Only time would tell because we have to see how the other manufactures price their product, one and second, how the electric vehicle comes maybe next year, some of the OEMs would have electric scooters with them, they can be slightly lower priced so there are lot of things that could happen in Q3-Q4 we will closely watch and then probably we would be able to make out what is the likely volumes that two-wheeler industry would have and how much finance penetration can happen there.

Jivan Rath: Sir with the higher penetration of EV going forward, it does not really change our credit rates models, I mean for a financier it is just a minor tweak that is all?

Madhu Alexiouse: It is something too early to comment as far as EV is concerned. We will have to see for the next 3-4 months how it works out because the prominent one is Hero Electric and there is not much of scope as of now but definitely it is something which would change the way the market is but as of now, I would it is too early to say anything. Credit tweak would be there. It is off the record, it is likely that there has to be lot of study about these vehicles because 50% is battery cost, 50% vehicle cost, we will have to study very closely and understand the nuances because it would be totally different from petrol vehicles.

Jivan Rath: Sir for the used car financing consumer durables have your setup any target as a percentage of AUM by let us say end of FY2021?

Madhu Alexiouse: I think as of now it is too early. Around Q3 we will tell as far as budgeting, these numbers are concerned, we are more focused on how we setup the right business model, consumer durable still in pilot stage. We want to be very careful. We are seeing couple of others getting into consumer durable and facing lot of problems, so we want to be doubly sure before we start budgeting those numbers. Used cars. Yes, we intent scale it up around Q4. so around end of Q3, we will be able to comment on this.

Vinod Panicker: In fact, we had actually budget also a very minimal disbursement of about 60 Crores for the full year, of which we have done about Rs.17 Crores to Rs.18 Crores, so next two quarters we would definitely look at an increased disbursement, but the numbers at the end of this year, the overall loan book of the used car may not be a huge number vis-à-vis the total loan book.

Jivan Rath: Sir I just going through the vehicle registration numbers for two-wheelers in the Vahan Parivahan site and after the first 9 months in October as of date, it looks like 22% growth year-on-year, so if this kind of growth persists for the next two months in the registration numbers, will that lead to a much better quarter for us in Q3 or do you subtract to that view?

Madhu Alexiouse: We are expecting Q3 to be better. I told that the festive season is looking positive for us. As of now we are happy about whatever has happened in October and hopefully if this trend continues and should continue because around Q3 in rural areas and Tier 3, Tier 4 centers things actually improves, so I am saying that if this trend continues I think H2 should be better than last year H2.

Moderator: Thank you very much. The next question is from the line of Shreya G from Subhkam Ventures. Please go ahead.

Shreya G: Sir considering the expansion in CV as well as consumer durables, how do you see the opex would be turning out and where do you see the cost to income to be settling first question. Second anything on the liquidity front? Any borrowing plans which we are expecting on the second half and what would as the margin as well as credit score guidance for the second half?

Vinod Panicker: I will take your first query which is on the opex in view of the new products. Currently, we have said in the past that the overall opex to net interest income would be in the range of about 55%. We are fairly confident that even with the new products, if we would continue to be that or maybe slightly lower. There would be a one-off case where you would see some bit of bump up, but then they are abnormal and that would become normal going forward. You mentioned about the liquidity part of it. Liquidity, I did mention about it earlier saying that liquidity we are fairly sound as far as liquidity goes and the overall cash position is very sound, we do not see any issue and borrowing is something which we do try and do continuously, be it in the form of getting funds from bank in the form of term loan or working capital loans or with anybody else in the form of securitization. We also are one of the few deposit taking NBFCs; Muthoot Pappachan group being a household name in the state of Kerala, we use that, leverage that, to get public deposits from the Kerala market where we are permitted to take deposits and last but not the least, we would want to look at getting the NCDs. We had taken an approval from the shareholders in June this year to borrow up to Rs 200 Crores by way of private placement in the form of NCDs. That is something which we had kept on hold for the last few months because of the kind of market that we were in. Things seem to be improving and that basis we would definitely want to look at now going to the investors and some people have actually shown interest now and maybe use that to try and get the Rs.200 Crores which has been approved by the shareholders to get those Rs.200 Crores into the company in the next couple of quarter.

Shreya G: Anything on the credit cost or ECL provisions which we are expecting?

Vinod Panicker: Currently, the provisioning that we are doing is at about 3.8% of the total book, which is at valued at about Rs.102 Crores, our total NPA on book is about Rs.151 Crores, so that is close to

65% to 70% kind of provisioning which we feel is comfortable or very comfortable if one goes strictly by the RBI norms, which has still not recognized Ind-As, the provisioning that we would need to do would be in the range of about 25% to 26%. Now the actual provisioning is in the 65% to 70% range so we feel that we are very well provided for number one, number two on the credit cost in the current quarter we had a seen a total credit cost of roughly about 2.8% and we have said in the past that when things stabilize it would be in the range of 2.25% at the end.

Shreya G: Any AUM target would you like to mention by FY2020 which we would like to achieve?

Vinod Panicker: We do not want to work at a target as long as the things do not improve on the ground. The current emphasis is to ensure that the book is stable, there are no delinquencies and the growth is profitable growth. When the market improves and overall economy improves, we will give guidance on the growth. Currently, we may not want to give it.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Vinod Panicker: A big thank you to all of you for being on the call with us. This was definitely a very challenging quarter; last four quarter has been, and this was possibly far more challenging than the previous three quarters. We are seeing some signs of improvement and we are very confident that going forward things will improve, let us hope this Diwali brings happiness and joy to all of us. Madhu will definitely talk after me. Just wanted to wish all of you a very Happy Diwali and a Prosperous New Year.

Madhu Alexiouse: Just to add what the Vinod said. I think Q2 was a few of the one off that we had faced. I think we had done a successful transition to Ind-As and then there had been the related one off-issue related to Deferred Tax Asset and floods and things like that so this is lot of one offs also there, I see a very positive signs in the sense that the disbursements or the book has shown a steady flow as far as last three quarters are concerned and I am seeing a very positive October in view of Dussehra and Diwali being there. I have full confidence that Q3 should look much better than what it was in Q2. Just to reassure you that the initiatives, the plan that we have in terms of new product expansion and things like that we have not mellowed down as far as those things are concerned, we are going ahead with all our plans and so we have remained invested in all of our products. Of course, two-wheeler being a core product, we have grown wherever we wanted we will continue to grow where our preferred markets are. Vinod mentioned we want to grow profitably. So profitable growth is one key thing and how we build for tomorrow that is very clear-cut focus. There is lot of initiatives on our digitalization part, there is lot of initiative on automation. That is parallelly happening and there is no let down or slow down on that, so while there are lot of headwinds, there are lot of background work that is happening which should show up in sometime and then when the market is ready Muthoot Capital would be the first to go market-after-market for increasing its market share. Thank you once again to all of you for taking out your very precious time. I know this is the result season and also Diwali, thanks for your time and from entire team of Muthoot Capital Services, from promoters at Muthoot Capital, Muthoot Pappachan Group I would like to wish all of you and your family a very Happy Diwali and a very great New Year ahead. I hope that not only our company or NBFC industry, the entire country should bounce back that is my wish, my prayer. Thank you all of you and hand it over to Digant.

Digant Haria: Thanks, everyone. Have a good day ahead. Thank you.

Moderator: Thank you very much. On behalf of Antique Stock broking that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.