"Muthoot Capital Service Ltd Q2FY18 Earning Conference Call"

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MODERATOR: **MR. DIGANT HARIA - ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Muthoot Capital Services Limited Q2 FY'18 Earnings Conference Call hosted by Antique Stock Broking. We have with us today the management from Muthoot Capital represented by Mr. Madhu Alexiouse -- COO; Mr. Vinodkumar Panicker and Mr. R. Balakrishnan – General Manager. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions from the presentation conclude. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. 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, sir.

Digant Haria: A very good morning to all of you. Thanks for taking out time to attend this call and then thank you to the management also for taking the time and speaking to the investors. So without any further delay, I will hand over the mic to Madhu from Muthoot Capital who can take you through how the quarter has been and the how the general business environment is and how the company is doing. So I will hand over to Mr. Vinod and Mr. Madhu. Over to you, guys.

Vinodkumar Panicker: Good Morning, my friends. This is Vinod Panicker here. Thanks for taking out time and attending to this concall and also for a discussion with the company management.

Before we get on to the financials, I just wanted to take a couple of minutes of your time to talk something equally important. You are all aware of the QIP that we successfully closed this week. We would say that this has been a significant milestone for our company. We are extremely humbled by the faith that has been showed by the investors in the company. We would express our gratitude to the lord almighty and to all others who have been involved in the entire process, namely the promoters, the board of directors for the timely leadership and guidance, the legal counsels, the merchant bankers, Inga Capital, the auditors for the continuous hand-holding and patient support during all the meetings and to help us meet the deadline and to all my colleagues who have actually burned the midnight oil and actually sacrifice the personal lives to ensure that we complete the entire process within record time, last but not the least, I would actually like to thank all those of you who have been keeping a close watch on our share and our operations which has added the confidence of this QIP investor. We once again thank you all the investors and with continued support from all of you I think we are sure that we will achieve many more milestones.

We would now get onto the "Financials:" It was a reasonably robust performance in the second quarter. We had overall growth of about 28% on QoQ basis in the disbursements where we grew from over Rs.372-odd crores to Rs.477 crores and 57% growth on YoY basis. The AUM on books grew by about 9% versus the previous quarter and about 32% versus the year which went by. The income actually grew by about 19% QoQ and about 33% on YoY basis and the income was at about Rs.95-odd crores in the current quarter. The finance expenses grew but grew slowly at about 8% QoQ and 15% on YoY basis aiding the NII growth numbers to grow by about 25% on quarterly basis and close to 50% on YoY basis. Operating expenses grew by about 27% to about Rs.42 crores versus the last quarter and 54% over the previous year. Loan loss provisioning was lower this quarter versus the last quarter more to do with having taken all the hits for the movement from a four-month norm to a three-month norm last quarter. The reduction was about 26% but versus the last year same quarter the growth was at about 64%, more to do with that being a four-month norm, this being a three-month norm, all this leading to a bottom line of Rs.10.4 crores which was 70% higher than the previous quarter and about 30% higher than the same quarter last year. The ROA was excellent in the current quarter with it being at about 3% versus 1.9% last quarter and also at 3.2% in the same quarter last year. Earning per share was at about Rs.7.6 Vs about Rs.4. last year. This has led to our half year numbers disbursements at about Rs.850 crores versus about Rs.560 crores last year. The income at about Rs.175 crores versus about Rs.135 crores last year and all this leading to a bottom line of about Rs.16.5 crores Vs about Rs.12.5 crores last year which is at about 32% higher than the same first half of previous year.

We are hopeful that we will continue to grow and deliver similar numbers or maybe even better as we go along. I would now ask Madhu to possibly take forward and tell his bit before you guys start speaking.

Madhu Alexiouse: Good Morning to all of you. We have been telling during last two, three calls our confidence about the industry and our confidence in growing this particular product. You know that currently we do only Two-Wheeler Finance. On expected line, the industry sold about 1.05 crores Two-Wheelers across the country, it is about 10% growth compared to YoY basis, so which means that this year we were projecting the sale of about 2.2 crores Two-Wheeler, so we are on track as far as industry is concerned. While the industry grew by 10%, we grew by about 47%, we did about 1.55 lakh Two-Wheeler unit for the H1. The point that I am trying to make is that while the industry grew at 10%, we grew at 47% which means that we grew our market share in the market that we are operating on a total industrial volume basis our average market share is about close to 2% which is 0.7% more than when we spoke during the last investor call.

I had been talking about technology and how it is helping us. On QoQ basis, we have been able to increase number of loans that we log in. Currently we have the capability of logging in about 1.25 lakh loans in a quarter, which means that almost 1 lakh unit loan we are able to do in a quarter which used to be around 60,000 till last financial year. So based on technology, we have been able to increase our capability two-fold; the point here is that with the same number of infrastructure and with the same operating capability, we have been able to show this growth of 47% YoY basis as on September 2017 and also increase the market share.

Coming to our key capability in terms of the business which we do through our Fincorp branches, a flagship company: We have shown a robust growth of about 40% there; last year we had done around Rs.207 crores business through that network and as we are talking we are already close to Rs.200 crores. We said that we will grow by about 50%, we are on track on that, because that is one of the significant distinctive advantage we have compared to other Two-Wheeler finance companies whereby they do not have that network and we have this network and sourcing capability is our own rather than depending on the dealers.

In terms of our expansion plans, last couple of investor calls I have been telling we are aggressively expanding; the dependence on South has come down drastically, we have grown significantly in North and East, and we have grown significantly in West. In last call I had said that we will be moving into Tier-1 cities, we will be moving into metro cities, so these areas our contribution has gone to about 20% of our overall business month-on-month. So on all parameters, whatever we have committed last time, we have been able to kind of reach out to those numbers, it is reflecting in the top line, it is reflecting in the bottom line. While we grew, we were able to contain our NPAs, in fact, we have brought down our NPAs compared to what it was in April. There is a very tight focus on collections because with 90-days DPD, the focus on lower buckets like zero and one bucket very tight control on that. So overall we have been able to grow the numbers in sync with the industry wherever they are growing across the country, we have been able to reach, we have brought down our dependence on South, and we have been able to exploit our network. So overall, I would say that we are in track, we are in line with whatever we have committed to all of you during last two calls.

I think with this, I would like to open the floor for questions. Over to you, Digant if something is missing out, we can kind of discuss it out and resolve those queries now.

Digant Haria: Thanks, Madhu, thanks, Vinod. We can open the floor for questions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Sir, my first question was on the market competitive pressure. While speaking to other players for the Q2 results, their margins contract and a lot of them have seen the risk being quite high with LTVs, their finance for example has not grown much, in their Two-Wheelers portfolio they have advantage of captive availability of customers, just wanted to understand how we are making sure that margins have chip in, portfolio remains the same while we continue?

Madhu Alexiouse: Anand, during various calls, I have been telling two-three aspects about how Muthoot Capital does Two-Wheeler business – One is that our capability in terms of reach and I have been repeatedly telling this that the market share of ours outside tier-1 city would be the best as far as industry is concerned, let us take rest of Karnataka or rest of Tamil Nadu, means outside

Bangalore or outside Chennai and similarly the network that we have got across A.P., Telangana, Gujarat, Maharashtra, the competitors had been focusing on business through dealers and through the main cities because they have certain level of infrastructure cost in developing their network. Fortunately for us, we have our network through our branches. At the right time we have been able to invoke technology where our process is driven through mobile log in capabilities across the country, then our share in the tier-2, tier-3 cities, and our network there is immense, competitors are not able to match there. So in terms of competitive pressure, I think as the focus on dealerships goes up, the competition goes up. To get business I am not dependent on dealership because of our own network. In cities I compete totally on technology because what happened in September was when there was a huge demand for Two-Wheelers during Dussehra and in the month of August during Onam there was a huge pressure of business, that is where our technology helped with the same number of people I was doing twice or thrice the volume that I am supposed to do. So these are certain factors which we have brought in last four, five months which is helping us to turn around business, in fact, dealers are coming back to us and telling that because of your turnaround time, because of your support, we have been able to sell more numbers. Dealers are seeing lot of value in us because not only we are able to turn around their business, but they see that from our network we are able to give them lot of business. As I said that the network of branches that we have got the sourcing capability that they have got. So for us whatever is happening in the industry I think we have been able to defy that to some extent, maintain our margins and in this industry generally the rate of interest, the processing fees and these things are decided by the dealers? If dealer is able to see the value addition that a financier is making I think then the margins or the interest rates are protected. To increase the volumes, I do not think so we have compromised anywhere on our LTVs or anywhere in terms of lightening our credit policy, nowhere it has been done because we have believed in increasing our reach, we have believed in activating our network, even currently out of the 3,600 branches we have got, we are active in 70% and this is the result that we are getting and once we become 100% the kind of numbers that we will churn out would be huge. So the point I am making is the distribution capability, the technology and our brand, these are the two-three things which is helping us get these numbers and we are able to be ahead of the industry.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: I have a couple of basic questions. I am attending your call first time. So I was going through your presentation for the Q1, I am not able to look at the Q2 presentation. So what I see one thing is you are primarily into the Two-Wheeler business financing. But when I look at the disbursement number like let us say FY'17 you have done total disbursement of Rs.1298 crores, where you have given hypothecation loan of Rs.1135 crores and others loan of Rs.162 crores. So can you say what the difference all about is?

Vinodkumar Panicker: We have got roughly 88-90% of our book is Two-Wheeler Financing and the balance 10% is other Corporate Loans that we have given, so that Rs.1135 crores is disbursements of the hypothecation loans which is necessarily Two-Wheeler Financing and the balance is other Corporate Loans which we give to other entity.

Giriraj Daga: What is the tenure of our Two-Wheeler Loan?

Vinodkumar Panicker: Ranging from 1 year-to-3-years.

Giriraj Daga: But at the end of FY'17 also, our AUM was Rs.1200 crores while the disbursement in that year is Rs.1300 crores, so why repayment is so high?

Vinodkumar Panicker: Let us say average repayment is 24-25 months, so this is the business where you need to keep running to be at the same place, so that is the reason why the disbursements we try to do as much as possible.

Giriraj Daga: I got your point sir, but the tenure is 1-to-3-years, then ideally the average should be 2-years, the 2-years one-one will be repaid, but what I see from this the entire previous year loan got repaid in this year, and a part of this year loan also got repaid this year, so my disbursement is Rs.1300 crores but my AUM is Rs.1200 crores at the end of the period?

Vinodkumar Panicker: You are talking about Rs.1203 crores which was March '17. What we possibly try and do is separate offline call on this. Rs.1203 crores is there, that is net of the securitization that has been done by us. If you add the securitized pool also, effectively the loan book was about Rs.1450 crores that is where the disconnect is.

Giriraj Daga: When I look at the yield, normally we have been about 23-25-27% on the Two-Wheeler side, is it the same on the Three-Wheeler also more or less?

Vinodkumar Panicker: Three-Wheeler is an old story; we stopped Three-Wheeler from 1st April 2014 get closed in this current quarter.

Giriraj Daga: My second question is like in your business model what kind of credit cost you normally build in at the start of the loan, means normal process, I am not saying that what will be this year, next year?

Vinodkumar Panicker: Last three years it has been in the range of 2-2.2%. We expect that to mellow down as we go forward.

Giriraj Daga: So that should be then almost like best in the category if I am not wrong?

Vinodkumar Panicker: We believe we have.

Giriraj Daga: Second, if you can give the absolute number NPA and the number of vehicles also, I think Q1 end you gave the number, Q2 I do not have number?

Vinodkumar Panicker: For Q2 the vehicles we will try and upload it today itself. The NPA number is roughly Rs.94.6 crores and number is something like 556,000.

Giriraj Daga: My next question is if you can give some flavor of your breakup of the brands which you finance… would it be possible like what is the proportion of let us say TVS, Hero or Bajaj?

Madhu Alexiouse: 80% business is basically divided between Hero and Honda, balance is distributed between the TVS, Royal Enfield, Suzuki, all those models, industry itself is stacked like this.

Giriraj Daga: You say that we will be able to achieve our guidance. So if you can run us through the guidance like FY'18, have you given any guidance and FY'19 also are we giving any guidance like AUM growth, profit growth and NII growth?

Vinodkumar Panicker: I normally try and avoid giving guidance but then whatever trend we are seeing today we are hopeful we will continue doing that.

Giriraj Daga: What is our Car right now post this QIP?

Vinodkumar Panicker: Post the QIP based on the September end numbers it is 26.7%.

Giriraj Daga: So any need for at least next two, three years for a capital, what is your internal thought process, when will we be seeing next round of capital considering the growth of 40, 45%?

Vinodkumar Panicker: Hopefully, we would need to look at it only maybe in 2020 based on the business plan that we have.

Moderator: Thank you. We have the next question from the line of Naitik Modi from OHM Portfolio. Please go ahead.

Naitik Modi: My question is pertaining to the NPAs. I wanted to know in what timeline these NPAs are actually recoverable, I am sure they are recoverable in probably less than a year, is my understanding right?

Vinodkumar Panicker: When the NPAs will get collected? That is a million dollar question. But then what we have been seeing is we have been able to roll back about 8% to 10% of the NPA on the book on a month-on-month basis. I think the one thing which you need to notice over here is, on an absolute term, the numbers have been coming down, in fact, let me take 30-seconds of your time and may be elaborate on that. When we moved from a four-month norm to a 3-month norm, we started with an NPA of roughly Rs.109 crores, I am talking about absolute terms. We are reporting Rs.94 crores-Rs.95 crores. So in a phase of about 6-months while the loan book has gone up from Rs.1440 crores to an Rs.1750 crores, we are still talking about the NPA having come down from Rs.109-odd crores to about Rs.94 crores, that is the reduction of Rs.15 crores, this has grown up by Rs.300 crores, the NPA has come down by 15%.

Naitik Modi: Basically on NPA, any particular trend whereby a certain section or certain geography is contributing more and that is where the NPAs are coming from primarily?

Vinodkumar Panicker: We see it in a couple of geographies but that is where we are taking necessary action and that is the reason it is actually coming down, which is what we try and ensure that we do.

Naitik Modi: Is this more of urban versus rural phenomena or is it just a specific state per se?

Madhu Alexiouse: We have our own analytics in place which every month is reviewed by a risk team or credit team and we go district-by-district, what is the performance on 30 plus, 60 plus, 90 plus, what are the kind of non-starters and accordingly we may switch off certain areas and switch on certain areas, so it is on-going process. So it is very difficult to tell these are the bad areas, there are the good areas but within a city, we know these are the negative areas and these are the good areas to do business. Is there any specific geography which has given us losses? I would say, 'no' but it is ongoing process and some areas for example, Gujarat, Porbandar, I stopped a couple of months ago and we are doing more of in a collection mode. There are certain areas like Ahmedabad where we go very aggressive. So every month-on-month it is reviewed and then there is a total mechanism called "Organization Risk Management Committee" which at a regional level, they review it, monitor it, minute it and take action, the go/no-go decision happens like that.

Naitik Modi: Because I believe that in rural areas primarily Two-Wheeler even if there is a default initially it becomes extremely difficult for the loan taker to function without it because that is the sole medium of transportation of his business, so I believe rural would be much lesser than urban. Have you noticed that trend?

Madhu Alexiouse: So in my initial address, I had said that what competition does not do and what we do is our network across the country irrespective of rural/urban. Our experience in rural market had been excellent and it was the right time for us to really go aggressive because the kind of push that government is giving on digital banking, digital payments, online payments, the entire country aligning to that and going forward, things like e-Aadhaar, e-Mandates, all these coming into play, e-Agreements coming into play. I think as far as technology is concerned, I do not think so there would be any rural/urban as far as banking transactions and loan repayments are concerned. So we are very strongly there. At rural, the apprehension used to be that they deal more with cash. So with this push from government, they are also now bankable customers, they have that banking habit, so it is benefitting us actually. You are bang on that repayment is great there in rural plus there is additional good point that they are shifting from cash towards digital mode, which is again helping us.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri who is an individual investor. Please go ahead.

Kashyap Jhaveri: I have got two questions; one, usually in your presentation, you gave the total credit cost number including the interest income reversal. During this quarter what has been the income reversal if any or let us say if the prior period NPL this will cover, then additions to NII item because of that?

Vinodkumar Panicker: I think somebody before you said that we have not put it up so far, so I do not know from where you got the numbers. But then the cash reversal which is about Rs.0.1 crore, would be about Rs.10-odd lakhs in Q2 FY'18. We will share it with you possibly we can get on post this call and then I can send you the presentation, not an issue.

Kashyap Jhaveri: Actually, I do not have Q2 number, but I am looking at Q1 presentation, let us say, in one of the slides we usually give the impact on profitability because of ….?

Vinodkumar Panicker: Rs. 2 crores in Q1 FY'18.

Kashyap Jhaveri: So that Rs.2 crores number this quarter is Rs.10 lakhs?

Vinodkumar Panicker: No, because last quarter was the time when we moved from 4-months to 3-months norm na. If the NPAs increase, all the income relating to that increase has to be reversed.

Kashyap Jhaveri: So in relation to that if I were to adjust this interest income reversal, first, some of the previous quarters also, it seems like our yield on advances adjusted for this seemingly has expanded by 100-120 basis points. So in a scenario where rates are coming down, is it that we have raised our lending rates and how has that been accepted by our customers?

Vinodkumar Panicker: Our yields have remained more or less constant, in fact, numbers are anything to go by, we had a yield of roughly 27%-odd in the second quarter from about 25% last quarter, last quarter yield was lower because of the reversal of income, so this quarter, we are at about 27%, in fact, for the last 4-years at least, I have been presenting, I think I have seen the numbers in this range always.

Kashyap Jhaveri: Second question is on our other expenses which have gone up quite significantly QoQ and YoY and actually quite disproportionate to the disbursement growth number. So what has moved this number – is there any chunky item which is non-repetitive sort of?

Vinodkumar Panicker: There are two big items in other expenses -- One is the sourcing cost, Second is the collection cost. I will take up the sourcing cost first. This quarter versus the previous quarter from Rs.330 crores of disbursement we went to about Rs.450-odd crores of disbursement. So when the disbursement goes up proportionately the cost of acquisition goes up and let us say, in a place like Kerala where Onam happens, you give additional schemes and other things on which we incur cost, which is actually charged off to P&L, #1. #2 is over the last couple of quarters, you would have seen the collection cost going up significantly. That is because after moving from 4-month to 3-month the intention was to ensure that the NPAs do not shoot because you have got only 90-days to play with from the time customer becomes due. So emphasis was on ensuring that the dues do not go beyond the zero or first bucket, so there was lot of emphasis on that. We are seeing results on that and post seeing these numbers what we have done is we have taken adequate steps to ensure that the collection while it happens through the collection agencies, there are a lot more collections which happen through other sources which are low cost items. You would see the benefits of it some of it in the third quarter, most of it in the fourth quarter.

Kashyap Jhaveri: Would it be possible to share the collection expenses number for H1? I think last year full year number this was about Rs.20.6 crores.

Vinodkumar Panicker: Last year was Rs.20.61 crores, this year it was Rs.19-20 crores.

Kashyap Jhaveri: Given that we have just migrated to 90 DPD in three months back only, at least for next two quarters, before the system recalibrate this should be the number that one can look at?

Vinodkumar Panicker: I think I have said that just now that you should look at a lower number because we are in the process of moving away from the high cost agency collection mode to some other modes, some of it which have started already, so I said you will see some of the benefits in this quarter, most of it in the next quarter.

Moderator: Thank you. Next question is from the line of Harshit Mantri from Stewart & Mackertich. Please go ahead.

Harshit Mantri: Just a follow up question on this collection cost, you are saying that after moving from four months to three months, you did not want this NPA to shoot. So if the collection expenses will be lower in the further quarters, then do you expect the NPAs can be a bit higher again?

Madhu Alexiouse: Collection for Retail Finance business has various verticals, we were having two verticals -- One is our own team which we call "Collection Executives" and then we have collection through "Agency." In zero bucket, there is another vertical that we have created which is Call Center-driven and the customer is persuaded to go and pay at the branches. We did not have the call center vertical which we have launched now. So this would be additional plus we have other call center agencies that are very low cost compared to the normal collection agents that is there in the market. So zero and one bucket which is our focus area. These are the verticals where it would be more economical. So when we shifted to 90 DPD at that point in time, we had initiated this, now, it is fully functional. So that is what Vinod was trying to say that we will be able to see some benefit this quarter and Q4 definitely. So if you are asking that "Whether by diluting the collection cost whether the NPA would go up?" No. Within zero to 90, there are various set of portfolio which is handled in different way. Cost optimization, balancing of the allocation of the cases. These are certain analytics which we have worked and then the strategy has been put in place. So just to quell your fear that whether NPA would go up? No, it will not go up, only thing is that there are a couple of verticals which was not there, which has been introduced, lot of analytics would come into play into this and cost optimization would happen.

Harshit Mantri: Sir, your loan book has slightly gone up from Rs.1559 crores in Q1 to Rs.1749 crores and similarly the disbursement has grown from Rs.341 crores. to Rs.450 crores. Actually I just wanted to understand what is the percentage of growth in disbursement with ex-percentage of growth in loan book?

Vinodkumar Panicker: As I said in the beginning, total loan book has grown by roughly about 49% YoY, QoQ it has gone up by about 12%. The disbursement has gone up by 28% QoQ and 57% YoY.

Moderator: Next we have a follow-up question from the line of Kashyap Zhaveri, who is an individual investor. Please go ahead.

Kashyap Jhaveri: I am just trying to understand collection part. Now we spent about Rs.19 crores on the collection side. Now this Rs.19 crores would be what – largely the ones who will be crossing 90-day bucket or it is on fairly large pool where probably it is even 30-days, 60-days we would have given it to agency?

Madhu Alexiouse: All the buckets including zero bucket because let us say guys who do not pay on due date, you need to collect from them, it is across all the buckets.

Kashyap Jhaveri: So we have spent about Rs.9 crores plus Rs.7 crores, total Rs.16 crores on credit cost provision line item, we spent about Rs.19 crores on collection side, so total cost of managing this number of NPL, given number for H1 we have spent total about Rs.35 crores. What I am trying to understand is that if this Rs.35 crores were not spent, would our NPL number percentage be like a double digit number, does that understand correct??

Vinodkumar Panicker: Let me just bifurcate both the cost, do not add that two, because once you have lent money to somebody, you need to collect it, not all of them go and pay on due date, so you need to put somebody to collect it. So my request is let us keep collection out of the credit cost. The credit cost is a combination of the provision for NPA. The fellows who do not pay we repossess the vehicle and sell it at a loss, there we book the loss, it is reversal of income, I think that was your query only about unrealized income, similar cost or if you write off something. So these are the things which are credit cost. The collection cost is necessary for day-to-day functioning because you would need somebody to do the collection. You should realize one thing that we have close to let us say, 480,000 customers, of which roughly 55% is still in the cash mode. Only in the last nine months that we have moved from a cash mode to a NACH mode and we are still in the process. So roughly 50% of our accounts are still in the cash mode. Guys do not pay in the cash mode, if somebody has to go and collect it from him, there is a cost attached to it, #1. #2, NACH also, there is a time lag between getting the mandate from the customer, giving it to the NPCI or registering, the same getting linked through the borrower's bank account, it is a time-consuming process. So in the interim you need somebody to do the collection. So my request is just, do not link the two, and just let us keep separately. While I am saying that credit cost will go down over the next couple of quarters like Madhu said, like I said, collection cost should come down significantly the quarter after next.

Kashyap Jhaveri: Unless you have any issues in disclosing, would it be possible to disclose let us say PAR-30 what sort of total collection amount came from these collections agencies in H1?

Vinodkumar Panicker: Most of the numbers are there in the public domain… I think the Q2 numbers we have not put up so far, we will upload it, hopefully today you will find most of it there.

Kashyap Jhaveri: Would you be giving portfolio risk of 30-days even in that presentation?

Vinodkumar Panicker: It is a part of it, 30 plus outstanding we are putting it….you have just raised that point, let me just say that 30 plus over the last six months have been coming down on a month-on-month basis.

Madhu Alexiouse: Kashyap, one collection cost once again, the NACH, NPCI that process is not yet stabilized across the country. That is one thing which is actually impacting a lot of finance companies and we have put special teams to really ensure that linkages to customer account happens in record time, that is not happening and lot of mandates are getting rejected by the customers bank. So this problem is happening, the system itself is not stabilized and that is beyond our control. So when we say, zero and one, our focus is these are the cases also which we have to actually address if it does not get linked someone has to go and collect. So once this stabilizes and more and more digital processes comes into place like e-mandate... within a month it should come and it would bring down lot of our problems.

Kashyap Jhaveri: Over a period of time, this NACH rejection ideally should come down, right, once the customer becomes quite conservant with the fact that he has to keep some balance whenever the installments are due today, they might not be habituated to doing that?

Madhu Alexiouse: I am not talking about NACH bounce, I am talking about NACH rejection at the customers banker, there has to be a linkage between this NACH which customer gives and customers account, and we have seen that if we present it back again the same mandate is accepted by the bank.

Kashyap Jhaveri: Why would they reject in the first place?

Madhu Alexiouse: That is the system, NPCI need to address that and we have been taking up frequently to address this, and that is why e-mandate is coming which would help us reduce that turnaround time on linking with the customers' account.

Vinodkumar Panicker: It mismatches the normal reason given, but then it is accepted next time.

Kashyap Jhaveri: Lack of balance is not the reason that you frequently get?

Vinodkumar Panicker: That is the second step, once it gets linked only, you can upload it and then debit the fellow's account and then only you will realize whether it has balance or not.

Moderator: Thank you. Next, we have a follow-up from Harshit Mantri from Stewart & Mackertich. Please go ahead.

Harshit Mantri: I actually wanted to understand that pressure is on the dealer side, so you are also saying that you are getting good business from the dealer. So do you see that further going ahead any pricing pressure because it is very correctly said that dealers are getting you good business

Madhu Alexiouse: Pricing pressure is always there, Harshit, but to get a dealer entry, I am not saying that I like to match what my competitors are offering. Let us understand the dealer business; if he sells 100 scooters, about 50 is funded and to fund 50 he cannot depend on one finance company, he needs at least two or three finance companies. So he looks at the company who can also contribute business from their side which we do because of our network and who is able to handle the volumes and that is where we come into play. These are the two factors. Given our reach in Tier-3 and Tier-4 cities, my dependence on cities where the competition is very high is very low. So I am able to kind of command some level of respects with the dealer in terms of pricing because at those areas I am able to give business to him, for example, Bangalore, we have 160-plus branches and they do close to 300 to 400 units on their own. So these businesses go to dealers. So we give this business to dealers. So dealer sees that value. So there is to and fro give and take is there. That is where in cities we are able to manage counters. In fact, the business in top-20 cities for us has actually doubled compared to Q2 and compared to last year it has gone up 3x. So I said that top 20-cities have now started contributing 20% of our business which is a significant move from last six months and last eight months and I am saying that there is some value addition which dealers sees in Muthoot Capital and that is why he allows us in the counter, that is why allows the business on our terms.

Harshit Mantri: You mentioned in slide #15 that NPA rollback is around 9-10% on MoM basis. But QoQ if we see that in Q1 it was around Rs.14.8 crores and in Q2 it is Rs.8.5 crores. So any light on this?

Vinodkumar Panicker: Harshit, is it possible for you to get offline, I will separately look at it and talk to you?

Harshit Mantri: How do you see this QIP leading to your growth in loan book and disbursement and any further borrowing cost reduction… any guidance on that?

Vinodkumar Panicker: I think based on somebody else's query, I mentioned that the capital adequacy has gone up to 26.7, the debt-equity has gone to sub-3%. All this will augur well for the organization because obviously it is Rs.165 crores of fund which is on book if it does not incur a cost, #1. #2 it helps us while we are negotiating with our lenders, and we are hoping for improvement in the rating now, that is not something which I am saying it will happen, I am saying that we will try for that. You will definitely see a significant reduction in the finance cost as we go forward. Growth in loan book, like I said sometime back, the trend that you are seeing is in the first two quarters or you have been seeing for the last year and a half or so, you will continue seeing that. Convey our regards to Rahul and Sourav also.

Harshit Mantri: Sure sir.

Moderator: Thank you very much. That was the last question in queue. As there are no further questions, I would like to hand the conference back to Digant Haria for closing comments.

Digant Haria: Thank you, everyone for your time, thanks for the participation. Have a very good day everyone.

Vinodkumar Panicker: Digant, thanks for organizing the call. Nice speaking to so many.

Madhu Alexiouse: Thank you, Digant. Bye-bye.

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